



Australian Government

Statutory Review

Operation of the *National Housing Finance and Investment Corporation Act 2018*

Final Report

August 2021



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and Investment Corporation Act 2018*

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13 August 2021

The Hon Michael Sukkar MP
Assistant Treasurer, Minister for Housing and
Minister for Homelessness, Social and Community Housing
Parliament House
Canberra ACT 2600

Dear Minister

STATUTORY REVIEW OF THE OPERATION OF THE NATIONAL HOUSING FINANCE AND INVESTMENT CORPORATION ACT 2018 – FINAL REPORT

I am pleased to present you with the Final Report of the Statutory Review of the Operation of the *National Housing Finance and Investment Corporation Act 2018* (the Review), as required under section 57 of the NHFIC Act. The Review has been prepared in accordance with the Terms of Reference. I consider that the Review also satisfies section 57A of the Act, which requires a review of NHFIC's activities assisting first home buyers.

The NHFIC Act has been a singularly significant and successful intervention by the Commonwealth, in an area where responsibilities between the Federal Government and other levels of government are not neatly aligned. The findings and recommendations contained in this Review are aimed at highlighting areas where NHFIC and the NHFIC Act have delivered successful outcomes, and where refinements could be made to better achieve the Government's objectives.

The Review received 31 written submissions and held a total of 38 meetings with stakeholders across the spectrum of: community and affordable housing providers; regulators; commercial lenders; institutional investors; capital markets advisory services; peak bodies; housing developers; consultancy services; economists; research organisations; NGOs; academics and The Housing Finance Corporation (the UK bond aggregator). The Review also met with NHFIC Board members and staff, and consulted with other agencies of Government as appropriate.

In addition to those stakeholders that have helped to form my views, I would also like to acknowledge the exemplary efforts of the Treasury secretariat that has worked alongside me throughout this Review.

Yours sincerely



Chris Leptos AM

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Foreword

I am pleased to present the review of the *National Housing Finance and Investment Corporation Act 2018* (the NHFIC Act), as required by section 57 and section 57A of the Act (the Review).

The Review has sought to achieve two simple outcomes within the context of the Terms of Reference:

- a) acknowledge successes; and
- b) highlight areas for potential improvement.

At the outset it must be said that housing security is amongst the most fundamental needs of a successful and prosperous society – the absence of affordable housing introduces life stresses that will limit productivity and opportunity, and possibly entrench intergenerational disadvantage. That is why a review like this matters.

It should also be said plainly that the NHFIC Act has been a singularly significant and successful intervention by the Commonwealth, in an area where responsibilities between the Federal Government and other levels of government are not neatly aligned. This is not unique to the challenge of providing adequate social and affordable housing, or even to the housing challenge more generally.

The Review estimates an investment of around \$290 billion will be required over the next two decades to meet the shortfall in social and affordable housing dwellings. Meeting this shortfall will require active private sector participation and high levels of collaboration across all levels of government. Despite its considerable early success, NHFIC is just one part of the overall solution.

However, there is a seminal role that perhaps only NHFIC can fulfil in the overall solution. If you read nothing else, I encourage you to read this part of the Review – Recommendation 1 in Chapter 3 which discusses the need to ‘crowd in’ and catalyse the private sector using NHFIC’s unique convening authority.

I confess that most of the good ideas in the Review did not come from me. I have borrowed heavily from private businesses, government agencies, NGOs, academics and interested individuals who participated in interviews and who made written submissions to the Review. I thank them on behalf of the Minister and myself for sharing so freely and generously.

Finally, I would like to record my personal thanks to the Australian Government Actuary, the Infrastructure and Project Financing Agency, and the very talented members of Treasury’s Secretariat who worked alongside me as we put every idea and some stakeholders ‘through the furnace’. I myself felt the heat a few more times than I care to remember, but it is this rigour which gives me the confidence to conclude this Review with twenty-five recommendations.



Chris Leptos AM



Executive summary

The **Introduction** sets out the Review's purpose, its Terms of Reference and the consultation process it has run. It also provides background on the origins of NHFIC and the NHFIC Act, the legislative framework and the objects and functions of NHFIC as set out in the Act. The Report is subsequently presented in the following three chapters.

Chapter 1 provides an overview and an estimate of the magnitude of the social and affordable housing challenge in Australia, and where NHFIC fits in to the overall suite of potential policy solutions. Building on previous research by UNSW and AHURI, the Review estimates that an investment of \$290 billion will be required over the next two decades to meet the current and projected shortfall in the stock of social and affordable housing. Meeting that shortfall will require active participation by the private sector and high levels of collaboration across all levels of government. NHFIC can play a meaningful role in catalysing private sector finance and complementing efforts across local, state and territory and Commonwealth governments.

In **Chapter 2** the Review assesses what the NHFIC Act has achieved to date. It finds that the Affordable Housing Bond Aggregator has achieved considerable early success and provided a number of benefits to Community Housing Providers (CHPs). Notwithstanding this success, further work is required to develop a self-sustaining market for affordable housing bonds and there could be scope for efficiency savings in NHFIC's bond issuance process.

The National Housing Infrastructure Facility (NHIF) has struggled to gain interest from eligible project proponents, partly due to limited awareness of its existence, uncertainty around who can access it and what types of projects it can support. The Capacity Building Program for CHPs has the right intentions, but the size of the grants is too small to make a difference.

The Government's stated objective of the First Home Loan Deposit Scheme (FHLDS) is to facilitate earlier access to the housing market by first home buyers. Evidence presented to the Review indicates that the FHLDS appears to be achieving this objective for the cohort of first home buyers who are able to secure a FHLDS guarantee. The limited evidence available indicates that the FHLDS has mostly brought forward buyers who would have entered the property market relatively soon, rather than buyers who would have otherwise struggled to enter the market.

NHFIC's research has contributed positively to the understanding of national housing supply and demand dynamics, but its research function is generally too broad and should better leverage the agency's core competencies to support efforts to catalyse private sector investment.

The governance requirements for NHFIC set out in the NHFIC Act have facilitated the establishment and early success of NHFIC. The appointment of a Government observer to the Board was made at a time of significant expansion to NHFIC's functions and the Review notes that it is important for the Government to have greater visibility at such times. However, it is desirable to return to a standard governance model at the earliest opportunity.

In **Chapter 3** the Report recommends what changes could be considered to improve the operation of the NHFIC Act and better achieve the overall objectives of the Act. A key recommendation is that NHFIC be given an explicit mandate to 'crowd in' other financiers to support the delivery of social and affordable housing at greater scale. This change would recognise that additional investment from the private sector is crucial to substantially increase social and affordable housing stock, and NHFIC should play a key role in catalysing more private sector investment. To support this, NHFIC should be given the ability to lend beyond just the CHP sector to other not-for-profit providers of social and affordable housing.

NHFIC's bond issuance process could achieve greater efficiencies by utilising the expertise of the Australian Office of Financial Management (AOFM). Under such a model, NHFIC could be directed to

engage the AOFM as an advisor to, and potentially the executor of, NHFIC bond issuance. To support this, NHFIC should be given a more explicit market development mandate to help catalyse a more attractive asset class for social and affordable housing bonds.

Support from the NHIF for new housing supply could be better deployed through a more proactive origination approach and through positioning the facility as a means of making marginal projects viable. However, if the NHIF remains relatively underutilised after another two years of operation the Government should undertake an in-depth assessment of NHFIC's operation of the NHIF before considering more fundamental changes, including whether the NHIF's budget allocation could be better utilised elsewhere.

The Capacity Building Program would be more likely to achieve its objectives if the size of the grants were increased, it was better targeted and if the grants were offered on a 'no win, no fee' basis.

Better data is needed to fully assess the effectiveness of the FHLDS, including on the types of first home buyers that it is supporting. Were the Government minded to consider any expansions of the Scheme, the Review recommends consideration be given to targeting any additional guarantee places to those who most need the assistance. Consideration should also be had to expanding the Scheme only in periods when extraordinary countercyclical support for activity may be required or in a way that supports additional housing supply.

While NHFIC should retain its responsibility for research into housing supply and demand, its research function should be narrowed to focus on research aimed at helping to unlock and stimulate private finance in social and affordable housing, consistent with the agency's core purpose and competencies.

NHFIC's governance arrangements can be enhanced if the Board and its subcommittees were to undertake regular internal and external reviews of performance, and an examination of how NHFIC documents and manages potential conflicts of interest.

Finally, should the Government agree to the Review's recommendation to give NHFIC an explicit mandate to 'crowd in' private financiers, this would require a fundamental change to the way that NHFIC operates. This gives rise to the need to reconsider NHFIC's strategy and in due course the appropriate mix of skills for the Board, Executive and NHFIC staff.

Summary of recommendations

Recommendation 1	The Review recommends that NHFIC be given an explicit mandate to ‘crowd in’ other financiers to increase the supply of housing, particularly social and affordable housing. This should be effected via amendments to the Investment Mandate. It is important for NHFIC to ensure its strategic and operational planning is updated to perform this critical role.
Recommendation 2	The Review recommends amending the Investment Mandate to explicitly require NHFIC to engage in activities to develop the market for social and affordable housing bonds as part of its operation of the AHBA.
Recommendation 3	The Review recommends that consideration be given to utilising the expertise of the Australian Office of Financial Management (AOFM) in executing NHFIC’s bond issuance.
Recommendation 4	The Review recommends that NHFIC be expressly permitted to consider issuing bonds in offshore markets once a domestic market for affordable housing debt is better established, and if the potential benefits to the sector were deemed to be sufficiently large from doing so.
Recommendation 5	The Review recommends that NHFIC’s Investment Mandate be amended to extend NHFIC the ability to lend to other not-for-profit providers of social and affordable housing that are not registered community housing providers, where it is satisfied that the risks of doing so are manageable.
Recommendation 6	The Review recommends the NHFIC Act be amended to extend the period during which the Government guarantee remains in force and include a requirement for a review of the guarantee to be undertaken prior to this extended date.
Recommendation 7	The Review recommends that the current arrangement of ad hoc consideration of the Liability Cap be replaced with a regular schedule of review. The regular review should focus on the quantum of private sector investment in the sector that could be leveraged by any further increase to the Liability Cap.
Recommendation 8	The Review recommends that the Government direct NHFIC to proactively seek out projects that could benefit from financing and grants under the NHIF. This should be a priority task for NHFIC and should include quarterly reporting to the Minister.
Recommendation 9	The Review recommends that the Government direct NHFIC to better leverage NHIF finance and funding to achieve a greater proportion of social and affordable housing in projects.
Recommendation 10	The Review recommends that the Investment Mandate be amended to provide more clarity on the types of projects that are eligible under the NHIF, particularly whether the NHIF can be used to support projects that do not include a social or affordable housing component.
Recommendation 11	The Review recommends that if the NHIF remains relatively underutilised after another two years of operation, the Government should undertake an in-depth assessment of NHFIC’s operation of the NHIF before considering more fundamental changes, including whether the NHIF’s budget allocation could be better utilised elsewhere.
Recommendation 12	The Review recommends that consideration be given to increasing the maximum size of individual grants available under the Capacity Building Program to \$75,000.

Recommendation 13	The Review recommends that consideration be given to whether access to Capacity Building Program grants be targeted to those that would receive the greatest benefit from it, such as first-time applicants for NHFIC financing.
Recommendation 14	The Review recommends offering Capacity Building Program grants on a ‘no win, no fee’ basis, whereby grants are paid to providers of corporate advisory services only when the CHP they are advising is successful in its application for NHFIC finance.
Recommendation 15	The Review recommends that additional data be collected to evaluate the effectiveness of the FHLDS, particularly on the behavioural changes induced by the scheme and the types of first home buyers that it supports. Findings should be incorporated into the six-monthly reporting required by section 29L of the Investment Mandate.
Recommendation 16	The Review recommends that if the Government were to consider changes to the number of guarantees offered under the FHLDS, or substantial changes to the eligibility criteria, it should continue to carefully assess potential impacts on the viability of the private LMI sector.
Recommendation 17	The Review recommends that, were the Government minded to provide additional guarantees to support first home buyers, there would be merit in considering whether these could be more precisely targeted to those that most need the assistance. Consideration should also be had to expanding the scheme only in periods when extraordinary countercyclical support for activity may be required or in a way that supports additional housing supply.
Recommendation 18	The Review recommends that NHFIC’s research function be narrowed to focus on research aimed at helping to unlock and stimulate private finance in social and affordable housing, consistent with NHFIC’s core purpose and competencies. NHFIC should retain responsibility for research into housing demand and supply in Australia, including current and potential future gaps between housing supply and demand.
Recommendation 19	The Review recommends that NHFIC be directed to support and, where appropriate, lead efforts to enhance the quality and availability of data on the social and affordable housing sector.
Recommendation 20	The Review recommends that the NHFIC Board be directed to develop and maintain a board skills matrix, including current and potential gaps, and to provide this to the Minister periodically. At a minimum, this should be provided to the Minister when there is a major change in strategic direction and reasonably in advance of the expiry of a Board member’s term.
Recommendation 21	<p>If Recommendation 1 is accepted by the Government, the Review recommends that:</p> <ul style="list-style-type: none"> • the Government consider whether the Board has the necessary skills and experience required to oversee this change; and • the NHFIC Board and Chief Executive Officer consider whether NHFIC staff have the necessary skills and experience to effect this change.

Recommendation 22	The Review recommends that the NHFIC Board be directed to undertake internal reviews (annually) and external reviews (every three years) of its performance, the performance of its individual Board members, and the performance of its Board sub-committees. The Minister should be provided with annual updates on the performance of the Board and a copy of any external reviews.
Recommendation 23	The Review recommends that the NHFIC Board examine how it documents and manages potential conflicts of interest and its performance monitoring activities.
Recommendation 24	The Review recommends that the Government provide NHFIC with a Statement of Expectations to further support NHFIC’s responsibilities as set out in the Act and the Investment Mandate. NHFIC should be expected to respond with a Statement of Intent.
Recommendation 25	The Review recommends that interest earnings on the NHIF Permanent Fund should only be used for the purposes set out in section 13 (1) of the Investment Mandate, unless the Minister’s prior agreement has been sought.

Glossary

AGB	Australian Government Bond
AHBA	Affordable Housing Bond Aggregator
AHURI	Australian Housing and Urban Research Institute
AHWG	Affordable Housing Working Group
ANAO	Australian National Audit Office
AOFM	Australian Office of Financial Management
CFRR	Council on Federal Financial Relations
CHP	Community housing provider
CRA	Commonwealth Rent Assistance
EFA	Export Finance Australia
ESG	Environmental, Social, and Governance
FHLDS	First Home Loan Deposit Scheme
Investment Mandate	<i>National Housing Finance and Investment Corporation Investment Mandate Direction 2018</i>
JLMs	Joint Lead Managers (investment banks that advise and manage a new bond issue)
LMI	Lenders mortgage insurance
NHFIC	National Housing Finance and Investment Corporation
NHFIC Act	<i>National Housing Finance and Investment Corporation Act 2018</i>
NHIF	National Housing Infrastructure Facility
NHSC	National Housing Supply Council
NRSCH	National Regulatory System for Community Housing
LVR	Loan to value ratio
PGPA Act	<i>Public Governance, Performance and Accountability Act 2013</i>
The Review	Statutory review of the operation of the <i>National Housing Finance and Investment Corporation Act 2018</i>
UNSW	The University of New South Wales

Introduction

Purpose of the Review

As part of the *Reducing Pressure on Housing Affordability* plan announced in the 2017–18 Budget, the Government announced the establishment of NHFIC, a new corporate Commonwealth entity dedicated to improving housing outcomes for Australians.

NHFIC was established by the NHFIC Act and commenced operation on 1 July 2018. The objective of the NHFIC Act is to establish NHFIC to improve housing outcomes for Australians by:

- a) strengthening efforts to increase the supply of housing;
- b) encouraging investment in housing (particularly in the social or affordable housing sector);
- c) providing finance, grants or investments that complement, leverage or support Commonwealth, state or territory activities relating to housing;
- d) contributing to the development of the scale, efficiency and effectiveness of the community housing sector in Australia; and
- e) assisting earlier access to the housing market by first home buyers.

Section 57 of the NHFIC Act requires the Minister to cause a review of the operation of the Act, to be undertaken as soon as possible after 30 June 2020. Additionally, section 57A requires the Minister to cause a review of NHFIC's activities assisting additional first home buyers to commence by 2021. The Review considers that this report fulfils the requirements of both sections 57 and 57A of the NHFIC Act.

On 19 November 2020, the Minister for Housing and Assistant Treasurer, the Hon Michael Sukkar MP, appointed Mr Chris Leptos AM to lead the Review, supported by a secretariat in Treasury.

Terms of reference

The Review was tasked with considering the following:

1. The impact of NHFIC on the CHP Sector

The Review will assess the impact of NHFIC's programs on the CHP sector, including by examining the impact of NHFIC on:

- the CHP sector's access to finance – including whether NHFIC has generated a more efficient source of funds, reduced refinancing risks, and reduced borrowing costs;
- the scale and prominence of CHP sector delivery of sub-market rental housing – including through partnerships with the private sector and institutional investors;
- improving the attractiveness of affordable housing as an asset class for private investment; and
- the financial capacity of the CHP sector through the provision of professional advisory services (via the Capacity Building Program) – including in relation to NHFIC applications, business planning, property development, risk management and financing.

2. The Role of NHFIC in Housing Supply

The Review will consider the role of NHFIC in increasing housing supply, including:

- the appropriateness of NHFIC's financing, including NHFIC's ability to complement, leverage or support Commonwealth, state or territory activities relating to housing that otherwise would not have occurred;
- NHFIC's role in facilitating additional investment in housing, including social and affordable housing;
- whether the scope of the definition of eligible project proponents and eligible projects for NHFIC financing outlined under the Investment Mandate is effective; and
- the suitability of the government guarantee for NHFIC's liabilities, including its bond issuances.

3. The Role of NHFIC in Increasing Homeownership

The Review will consider the effectiveness of the First Home Loan Deposit Scheme in facilitating earlier access to the housing market for first home buyers.

4. The Role of NHFIC Research

The Review will consider the effectiveness of NHFIC in undertaking research into housing affordability.

5. The Governance and Operation of NHFIC

The Review will assess NHFIC's financial and corporate governance arrangements as detailed in the Act including by considering:

- the feasibility of NHFIC (or its parts) self-funding its operational costs;
- Section 49 of the NHFIC Act which provides for the payment of annual dividends to the Commonwealth;
- Section 48 of the NHFIC Act which provides for the maintenance of adequate capital and reserves; and
- the effectiveness of current governance and reporting arrangements, including the role of the NHFIC Board and CEO, in enabling NHFIC to execute its functions pursuant to section 8 of the NHFIC Act.

6. Other

The Review will consider other matters relevant to the operation of the NHFIC Act, as appropriate.

Consultation process

The Review published an Issues Paper on 7 December 2020, calling for submissions from interested stakeholders on any or all aspects of the terms of reference. The Review received 31 submissions in response.

To supplement information gathered through formal submissions and its own desktop research, the Review met with a wide range of stakeholders. In total, 38 meetings were held with representatives across the spectrum of: community and affordable housing providers; regulators; commercial lenders; institutional investors; capital markets advisory services; peak bodies; housing developers; consultancy services; research organisations; NGOs and academics. The Review also met with NHFIC Board Members and NHFIC staff.

Cognisant of the need to ensure it was receiving a diversity of views across the country, the Review met with representatives across all major housing markets in Australia. For an international perspective, the Review also met with The Housing Finance Corporation in the United Kingdom.

For more details on the Review's consultation process see **Appendix 3**.

NHFIC and the NHFIC Act

The origins of NHFIC and the NHFIC Act

NHFIC was established in 2018 as a corporate Commonwealth entity mandated to support housing outcomes in Australia. NHFIC's origins lay in a series of government processes investigating the state of housing affordability in Australia. In 2015 the Council on Federal Financial Relations (CFFR) requested further work be undertaken on housing affordability with a focus on solutions to improve the supply and provision of social housing. CFFR established the Affordable Housing Working Group (AHWG) in 2016, which comprised Commonwealth, state and territory government officials. The AHWG was tasked by CFFR to:

- identify potential financing and structural reform models that increase the provision of affordable housing (social housing and housing in the private rental market) for those on low incomes;
- provide assessments of potentially viable proposals put forward by stakeholders; and
- outline the best method to progress further any models identified as potentially viable.

In progressing the goals above, the AHWG was required to report on the current state of affordable housing and examine the feasibility of, and make recommendations for, how governments can progress innovative financing models to facilitate sustainable long-term private sector investment at scale to increase the supply and availability of affordable housing. Regard was to be given to the role of governments, investors, the not-for-profit sector and other groups in the provision of affordable housing and alternative structural models that facilitate improved affordable housing outcomes.

An issues paper released by the AHWG in February 2016 outlined four possible finance models to increase the supply of affordable housing: a housing bond aggregator, a housing trust, housing co-operatives and social impact investing bonds.¹ Feedback from a range of stakeholders was sought to consider the merits of the proposals.

After receiving public submissions, the AHWG released a paper in 2016 which advocated for a financial intermediary in the form of a bond aggregator to combine the borrowing requirements of affordable housing providers and issue bonds on their behalf in order to facilitate institutional

1 Affordable Housing Working Group (AHWG), *Issues Paper*, Council on Federal Financial Relations (CFFR) 2016.

investment into affordable housing at scale. The paper also investigated impediments to the supply of affordable housing, finding the most detrimental to be the ‘funding gap’ – namely, that it costs housing providers more to provide a new unit of social or affordable housing than the revenue it produces in return (i.e. from concessional rents). The AHWG stated that no innovative finance solution would address the funding gap and that ‘a sustained increase in the investment by governments is required to stimulate affordable housing production’.²

The AHWG released a second paper in 2017 which made recommendations to support the implementation of the bond aggregator, including encouraging efforts from all governments to close the ‘funding gap’ and develop and implement a uniform and nationally applied community housing regulatory framework.³

The Commonwealth Government adopted the recommendation of the aggregator model and announced the creation of NHFIC as part of its *Reducing Pressure on Housing Affordability* plan in the 2017–18 Budget.

The legislative framework

The objectives of NHFIC, its legislated functions and governance arrangements are set out in the *National Housing Finance and Investment Corporation Act 2018* (the NHFIC Act). The NHFIC Act establishes NHFIC’s Board to oversee NHFIC’s activities. The NHFIC Act also establishes the role of the CEO, who is appointed by the Board to manage NHFIC’s day-to-day activities.

The Minister is empowered by the NHFIC Act to give specific directions to the Board in relation to the performance of the NHFIC’s functions – this occurs through the *National Housing Finance and Investment Corporation Investment Mandate Direction 2018* (the Investment Mandate). The Investment Mandate is a legislative instrument that is exempt from disallowance.

The object of the NHFIC Act is to establish NHFIC to improve housing outcomes for Australians by:

- (a) strengthening efforts to increase the supply of housing;
- (b) encouraging investment in housing (particularly in the social or affordable housing sector);
- (c) providing finance, grants or investments that complement, leverage or support Commonwealth, State or Territory activities relating to housing;
- (d) contributing to the development of the scale, efficiency and effectiveness of the community housing sector in Australia; and
- (e) assisting earlier access to the housing market by first home buyers.

NHFIC’s functions

NHFIC was established to operate the Affordable Housing Bond Aggregator (AHBA) and the National Housing Infrastructure Facility (NHIF). With the explicit backing of the Commonwealth, the AHBA makes loans to eligible CHPs and finances those loans via the issuance of bonds in the wholesale capital market. The NHIF was created to help fund the provision of critical infrastructure underpinning the supply of affordable housing, including electricity, gas, sewerage and transportation.

NHFIC was also given a Capacity Building Program under which grants may be paid to community housing providers applying for AHBA or NHIF finance. The grants are intended to provide CHPs with consultancy advice on financing, business planning, property development and risk management.

² AHWG, *Innovative Financing Models to Improve the Supply of Affordable Housing*, CFFR, 2016, p 2.

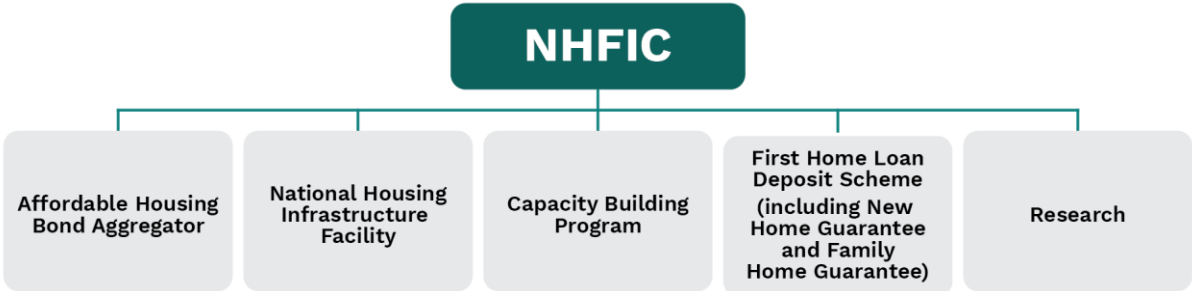
³ AHWG, *Supporting the Implementation of an Affordable Housing Bond Aggregator*, CFFR, 2017, pp 2-3.

In October 2019, NHFIC’s activities were expanded when the NHFIC Act and Investment Mandate were amended to establish the First Home Loan Deposit Scheme (FHLDS) and a new research function. The FHLDS was established with the aim of enabling first home buyers to access the housing market sooner. Under the FHLDS, eligible first home buyers require a minimum 5 per cent deposit to purchase a home – subject to meeting participating lenders’ loan assessment criteria – with NHFIC providing a guarantee of up to 15 per cent of the value of the property. NHFIC’s research function was established to conduct research into housing affordability in Australia, including on housing demand and supply.

In the 2020–21 Budget, the FHLDS was expanded to include the New Home Guarantee, which enables eligible first home buyers to build a new home or purchase a newly-built home with a minimum 5 per cent deposit. The New Home Guarantee aims to expand the supply of housing and stimulate the residential dwelling construction sector. In the 2021-22 Budget, NHFIC was also tasked with administering the Family Home Guarantee, which aims to provide a pathway to home ownership for single parents with dependants.

NHFIC’s current suite of functions are outlined in **Figure 1** below.

Figure 1: The functions of NHFIC



Chapter 1 – Catalysing investment in social and affordable housing

Key points

- *The term ‘social and affordable’ housing is not well defined, and it should be. For the purpose of the Review, we use the term to refer to any type of discounted or subsidised housing that assists low to moderate income households avoid housing stress.*
- *While the social and affordable housing sector has grown in scale, its growth remains constrained. The most fundamental constraint is that the revenues generated by social and affordable housing are insufficient to fund the cost of provision – what the sector calls its “funding gap”.*
- *In order for social and affordable housing provision to be economic for providers, that funding gap needs to be filled by some form, or some combination of, subsidy(ies).*
- *While Australia is not alone in facing a structural undersupply of social and affordable housing, meeting the challenge will require not only a substantial upscaling of investment from both the private and public sectors, but also a greater level of innovation in financing models.*
- *For Australia to close the current and projected shortfall in social and affordable housing dwellings would likely require investment (whether from the public or private sector) of \$290 billion over the next twenty years.*
- *Meeting the scale of this challenge will require concerted effort across all levels of government. While the states and territories have primary policy responsibility, the advent of NHFIC provides an innovative mechanism whereby the Commonwealth can more directly influence the provision of social and affordable housing.*
- *The size of NHFIC’s balance sheet, relative to the quantum of investment required, means that NHFIC (even if it was vastly expanded) cannot fill the gap alone. But it can influence many of the participants to work more effectively towards a longer-term solution.*
- *NHFIC has to play a catalysing role that ‘crowds in’ private sector financiers to deliver social and affordable housing at scale. In doing so, it has to be supported by other arms of government at the local, state and territory, and Commonwealth level.*

Defining social and affordable housing

The term “social and affordable housing” has achieved common parlance without any real consensus on what the term actually means. The NHFIC Act refers to “social or affordable housing” but does not specifically define what types of housing the term covers.

For many, “affordable housing” encompasses a range of housing types that seek to reduce or eliminate housing stress for low to moderate income households, where housing stress is generally defined as spending more than 30 per cent of household income on housing costs⁴. “Social housing” is the most well recognised form of affordable housing in Australia and is itself an umbrella term that includes community housing – housing that is owned and/or managed by private CHPs – and public housing owned by state and territory governments. Social housing tenants are typically charged rents set at between 20 and 30 per cent of total household income. Other housing types within the “social housing” umbrella cater to particular tenant cohorts. Indigenous community housing (ICH) and state-owned and managed Indigenous housing (SOMIH) are dwellings owned and/or managed by CHPs and state and territory governments, respectively, for Aboriginal and Torres Strait Islander tenants.

Some practitioners in the sector define “affordable housing” more narrowly. They regard “affordable housing” as rental housing that is owned by private or institutional investors and that is provided at below market rent to qualifying tenants (usually between 70 and 80 per cent of market rent), typically where the rental income stream is subsidised in some way by government. Examples include dwellings delivered under the Commonwealth Government’s National Rental Affordability Scheme (NRAS), which provided tax incentives to developers and providers that built new dwellings and rented them to eligible tenants at 20 per cent below market rents for 10 years, and build-to-rent developments that provide sub-market rentals to key workers and other low to medium income households. Larger CHPs may also build sub-market rental stock alongside social housing dwellings as part of mixed-use developments.

Some also consider “affordable housing” to include pathways to home ownership for low to medium income households which involve subsidised loans or shared equity arrangements.⁵ There are a range of policies designed to assist households into homeownership, including the FHLDS, the First Home Super Saver Scheme, Keystart (a low deposit home loan program operating in Western Australia) and shared equity schemes run by some state governments. These programs seek to address challenges faced by first home buyers attempting to enter the market, particularly the time needed to save for, and the quantum of, a deposit.

A range of speciality housing types exist beyond those discussed above. Crisis and transitional housing refer to a range of housing types offered to people at risk of, or experiencing homelessness. These include short-term and emergency housing, and medium- to long-term transitional housing. Another speciality housing type is Specialist Disability Accommodation which targets tenants requiring housing solutions to ‘assist with the delivery of supports that cater for their extreme functional impairment or very high support needs’.⁶

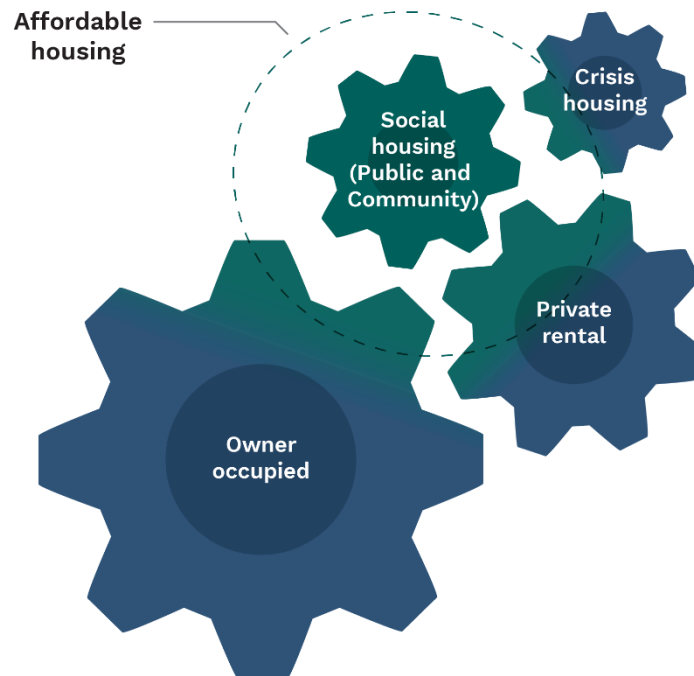
4 Australian Institute of Health and Welfare (AIHW), *Housing affordability*, AIHW website, accessed 20 April 2020. <https://www.aihw.gov.au/reports/australias-welfare/housing-affordability>

5 N Gurrán, S Rowley, V Milligan, B Randolph, P Phibbs, C Gilbert, A James, L Troy and R van den Nouwelant, *Inquiry into increasing affordable housing supply: Evidence-based principles and strategies for Australian policy and practice*, Australian Housing and Urban Research Institute (AHURI), 2018, p 13.

6 NDIS, *Speciality Disability Accommodation*, NDIS website, accessed 15 March 2021.

For the purposes of the Review, we use the term “social and affordable housing” to refer to any type of discounted or subsidised housing that assists low to moderate income households avoid housing stress. This includes the range of housing types represented in **Figure 2**.

Figure 2 - Components of the housing sector, stylised



While the Review considers it desirable if some standard definitions were developed across the sector, it is not within scope of this Review to propose a definitive nomenclature. The Review leaves it open to others, including NHFC, to initiate some momentum towards this goal.

The social housing sector

Social housing is predominantly built, owned and managed by either state housing authorities (public housing) or CHPs (community housing). Public housing dominated the affordable housing landscape from 1945, however since the 2000s increasing amounts of public housing stock have been transferred from state and territory governments to CHPs to capture efficiencies offered by decentralised service delivery and to foster competition among providers.⁷

Social housing

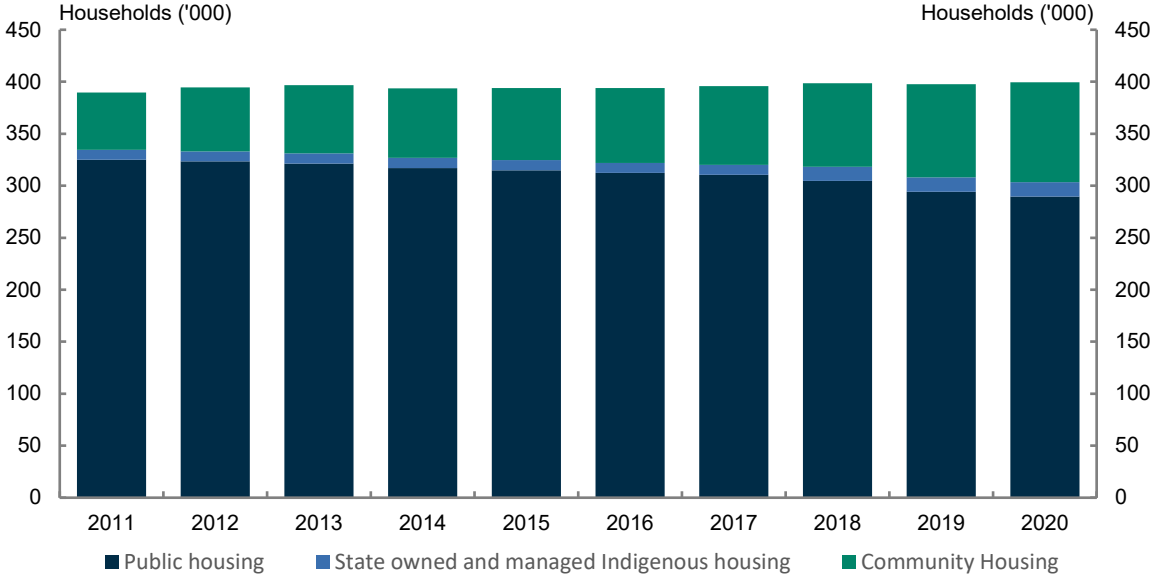
At 30 June 2020, there were around 400,000 households living in social housing – see **Figure 3**. Generally, social housing places are allocated to low income households in accordance with eligibility and prioritisation policies and in most cases allocated to those with greatest need, such as those at risk of homelessness.

Over time, this allocation strategy has increased the proportion of tenants with complex needs who are unemployed and rely on Commonwealth welfare payments. As at 30 June 2020, 84 per cent of public housing tenants relied on social security payments as their main source of household income,

⁷ H Pawson, V Milligan and J Yates, *Housing Policy in Australia*, Palgrave Macmillan, Singapore, 2020, p 113.

most commonly the disability support pension (27.9 per cent) and the age pension (24.8 per cent).⁸ Low rates of workforce participation and strong dependence on social security payments means most social housing households are low income. At 30 June 2020, 98.7 per cent of public housing households and 95.3 per cent of community housing households respectively were in the lowest 40 per cent of gross household income in Australia.⁹

Figure 3: Number of households in social housing (as at 30 June 2020)



Source: Productivity Commission, *2021 Report on Government Services*, Part G, Section 18, Housing Data table 18A.4.

Community housing providers

The CHP sector includes a range of providers of varying size, including not-for-profit, charitable and faith-based providers as well as for-profit organisations. CHPs provide services to a multitude of household types and cohorts, including tenants with specialist needs, women affected by family violence and Indigenous Australians. CHPs deliver a range of housing from crisis and transitional housing through to market-rate rentals as part of mixed-use developments.

CHPs can be registered under the National Regulatory System for Community Housing (NRSCH). The NRSCH was established in January 2014 with the objective of ‘providing a consistent regulatory environment to support the growth and development of the community housing sector’. The NRSCH aims to ensure a ‘well-governed, effectively managed and viable community housing sector that meets the housing needs of tenants and provides assurance for government and investors’.¹⁰ The NRSCH is also dedicated to developing the CHP sector’s culture of registration and compliance, and imposes obligations on CHPs relating to reporting, risk profiling and continued monitoring of activities.

The NRSCH is implemented through state and territory legislation known as National Law, with the exception of Victoria and Western Australia. Registered CHPs in Victoria and Western Australia face

8 AIHW, *Housing Assistance in Australia 2021 - Social Housing Households*, Table HOUSEHOLDS.3 [data set], 30 June 2021.
 9 Productivity Commission, *2021 Report on Government Services*, Part G, Section 18, Housing Data table 18A.21.
 10 National Regulatory System for Community Housing (NRSCH), *NRSCH Regulatory Framework*, NRSCH Website. Accessed 20 April 2021. https://www.nrsch.gov.au/__data/assets/file/0004/420871/NRSCH-Regulatory-Framework-_Amended-27-July-2017.pdf

similar obligations under their state-based schemes, although in Western Australia the framework is policy-based rather than being underpinned by legislation.

The NHFIC Act and Investment Mandate requires CHPs to be registered under a law or scheme administered by a state or territory to be eligible for AHBA finance. There are over 300 CHPs registered in Australia under the NRSCH. CHPs registered under the NRSCH are categorised into one of three tiers, depending on the complexity of their tenancy, property management and development activities. **Figure 4** shows the number of CHPs in each tier group registered under the NRSCH, and the Victorian and Western Australian schemes.

Figure 4: Registered CHPs in Australia

NRSCH registered CHPs	
Tier 1 CHPs	36
Tier 2 CHPs	43
Tier 3 CHPs	229
Total	308
Victorian registered CHPs	
Housing Associations	10
Housing Providers	30
Total	40
Western Australian registered CHPs	
Tier 1 CHPs	4
Tier 2 CHPs	6
Tier 3 CHPs	15
Total	25

Sources: NRSCH, National Provider Register (as at 3 August 2021), Victorian Government Housing Registrar (as at 3 August 2021), WA Government Department of Communities (as at 3 August 2021).

Tier 1 CHPs operate a “commercial business model and function at scale and tend to have the industry-specific skills and organisational capacities to manage and absorb substantial growth”.¹¹ These CHPs are large, well-developed organisations that are capable of supporting mixed-used developments, have robust balance sheets and own assets across a range of locations. Tier 2 and 3 CHPs are smaller enterprises with fewer assets and smaller balance sheets that are less capable of leveraging opportunities for growth. Tier 3 CHPs make up the vast majority of providers by number and represent a diverse range of organisations offering small-scale and specialised housing to specific cohorts.

¹¹ V Milligan, C Martin, R Phillips, E Liu, H Pawson and A Spinney, *Profiling Australia’s Affordable Housing Industry*, AHURI, 2016, p 2.

The Western Australian registrar utilises the Tier system.¹² The Victorian registrar categorises providers as either Housing Associations, which are large, more sophisticated CHPs, or Housing Providers, which are smaller organisations.¹³

While the majority of CHPs are not-for-profit entities, there exists a small number of for-profit providers. These are predominantly Tier 3 CHPs operating in NSW. Because for-profit providers are unable to access the various concessions made available to not-for-profits, the Australian Housing and Urban Research Institute suggests they are “unlikely to achieve the commercial parameters and economies of scale required to make affordable housing a viable part of their business”.¹⁴ As noted, there are also several hundred unregistered housing providers in Australia. There is an absence of data collected about non-registered providers, however these are typically very small organisations with limited capacity for growth.¹⁵

Constraints on the sector’s expansion

Funding gap

There are several constraints on the growth of the social and affordable housing sector in Australia. By far the most significant is that the revenues generated by social and affordable housing are insufficient to fund the cost of provision – what the sector calls its “funding gap”. In order for social and affordable housing provision to be economic for providers, that funding gap needs to be filled by some form, or some combination of, subsidy(ies). While there is a funding gap it is very difficult for the private sector to invest in social and affordable housing.

Figure 5 provides an illustrative example of the funding gap for different affordable housing types, showing that the gap grows larger, the lower the income of tenants, with the largest gap for social rental housing. Taking into account the costs of, and revenue available from, social housing assets and the amount of debt that can be serviced per dwelling, AHURI quantified the funding gap at around \$13,000 per annum for an average social housing dwelling over a 20-year timeframe. Across geographic locations, the size of the estimated gap ranged between \$5,000 and \$35,000 per annum.¹⁶

The right hand side of **Figure 5** lists example interventions that could help to bridge the funding gap for each affordable housing type. Interventions include operating subsidies, income support payments (such as Commonwealth Rent Assistance), capital/land grants and tax concessions.

12 Government of Western Australia, *Registered Providers*, Department of Communities website, n.d., accessed 15 March 2021.

https://www.housing.wa.gov.au/investorsandpartners/communityhousingorganisations/registeredprovider/s/Pages/registered_providers_under_community_housing_regulatory_framework.aspx

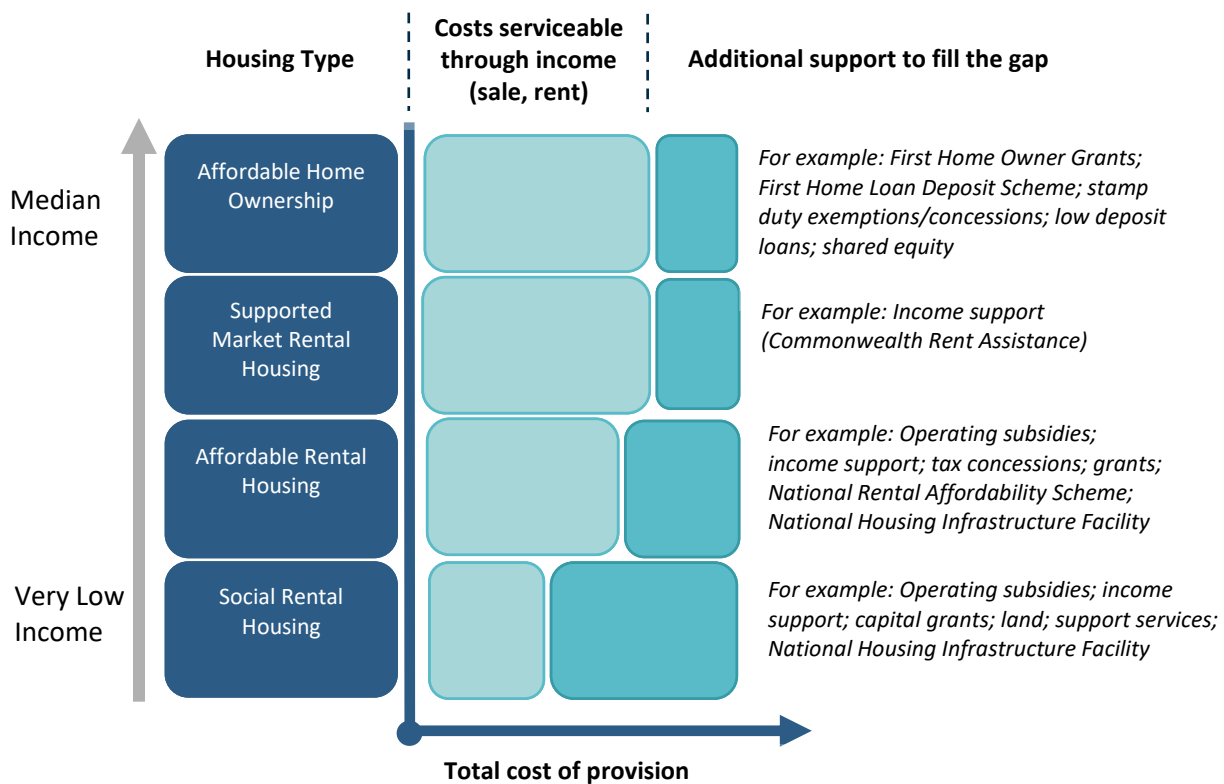
13 Victorian Government Housing Registrar, *Public Register*, Victorian Government website, n.d., accessed 15 March 2021. <https://chimes.force.com/publicregistrar>

14 V Milligan et al, 2016, p 3.

15 V Milligan et al, 2016, p 30.

16 J Lawson, H Pawson, L Troy, R van den Nouwelant and C Hamilton, *Social Housing as Infrastructure: an Investment Pathway*, AHURI, 2018, p 82.

Figure 5: Illustrative costs and funding gaps for different housing types



Source: Modified version from the Affordable Housing Working Group report, 2017, p 11.

Accessing finance

Another constraint on growth in the social and affordable housing sector is difficulty accessing finance from the private sector. Bank loan offerings have historically been unsuitable for CHPs; loans are typically provided at relatively high interest rates and with relatively short 3- to 5-year terms¹⁷, which does not match the asset life of social housing dwellings (typically beyond 35 years).¹⁸

Banks and other financiers are generally reluctant to take exposures in social and affordable housing. This reluctance reflects the low rental yields available, unfamiliarity with the sector and few established policies to assess lending options, small pools of equity among providers, the relatively small scale of developments, policy instability and administrative complexity.¹⁹

While some innovative financing models have been developed to overcome these constraints, the Review notes that these are unlikely to attract private sector capital to the sector at the scale required in the absence of a sufficient subsidy to bridge the sector's funding gap.

Some stakeholders have argued that another constraint on greater private financing for social housing is the Australian Prudential Regulation Authority's (APRA) treatment of loans to social housing providers. In its capital framework, APRA classes loans for social housing purposes as "income-producing", rather than "residential", real estate. As a consequence, authorised

17 J Lawson, M Berry, C Hamilton and H Pawson, *Enhancing affordable rental housing investment via an intermediary and guarantee*, AHURI, 2014, p 33.

18 NSW Federation of Housing Associations Inc (NSWFHA), *The Affordable Housing Financial Intermediary*, Treasury website, 2016, p 7.

19 V Milligan, J Yates, I Wiesel and H Pawson, *Financing Rental Housing through Institutional Investment*, AHURI, 2013, pp 36-37.

deposit-taking institutions are required to hold more capital against loans made to social housing providers than owner-occupied housing loans. In submissions to APRA's consultation on proposed reforms to the capital framework, the sector has claimed that this capital treatment is constraining the supply of credit to social housing providers.²⁰ The Review notes that this issue is outside of its terms of reference and that APRA has provided a response to these arguments in its paper *Response to Submissions: A more flexible and resilient capital framework for ADIs*, published on 8 December 2020.

Regulatory constraints

The state of the regulatory system in Australia is another constraint on growth in the sector. The AHWG critiqued the NRSCH for 'a focus on compliance rather than capacity building, poor quality and availability of sector data, and a lack of measures for tenant outcomes', and noted that to build trust among investors, the regulatory system must be improved, with a focus on strong governance, clearly-defined rules and transparency.²¹ The AHWG noted, "To the extent that a revised regulatory framework for community housing features appropriate regulation of CHP governance and financial activities (without weakening its oversight of tenancy management activities), it will provide a stronger signal to institutional investors of the viability of the sector and promote the expansion of CHP activities in Australia."²²

The AHWG and a range of sector representatives note that the lack of a uniform regulatory environment is a significant flaw with the current system.²³ CHPs that operate solely in Victoria or Western Australia are unable to register under the NRSCH, and those that operate in Victoria or Western Australia *and* other jurisdictions are required to participate in multiple regulatory schemes, imposing additional costs and compliance burdens. Inconsistencies across the schemes also produces different obligations for CHPs and reduces investor confidence in the sector. The AHWG recommended that Commonwealth, state and territory governments and the community housing sector collaborate to develop and implement a uniform and nationally applied regulatory framework.²⁴

Since the AHWG made this recommendation, there has been little progress towards uniting all states and territories under a national scheme. A review of the NRSCH, published in April 2021, considered potential reforms to the operation of the NRSCH, including a harmonised regulatory regime for all jurisdictions. However, the NRSCH review assessed this reform as highly complex and noted that further work was needed in order to determine whether such reform should be pursued. Despite this, a uniform national regulatory system is widely considered by stakeholders to be necessary for attracting private investors at scale to the sector, and thus growing the social and affordable housing market in Australia.

Data quality and availability

Data about the CHP sector, including financial activities and overall performance, is of variable quality and not easily accessible. According to AHURI, "as a basis for accountability and informed policy making, official data relating to social and affordable housing services are completely inadequate".²⁵ Issues related to data include the use of out-of-date frameworks, a lack of specificity

20 Australian Prudential Regulation Authority (APRA), *Response to Submissions: A more flexible and resilient capital framework for ADIs*, APRA website, 2020.

21 AHWG, 2017, p 22.

22 AHWG, 2017, p 1.

23 AHWG, 2017, p 23; Community Housing Industry Association (CHIA), *Submission to the Review of the National Regulatory System for Community Housing Discussion Paper*, CHIA, 2019.

24 AHWG, 2017, p 24.

25 V Milligan et al, 2016, p 6.

and consistency in data definitions across jurisdictions and providers, and key gaps in data sets. As providers of social goods, a lack of good data about performance constrains public transparency and accountability for CHPs. Moreover, data gaps erode visibility for investors, hamper their ability to assess the creditworthiness and feasibility of potential projects and contribute to the generally low appetite to invest in social and affordable housing.

A 2019 NRSCH Data Needs paper made recommendations to address these issues, including improving the information available to providers and other stakeholders about the performance of providers and developing mechanisms to share data with appropriate parties such as funding agencies.²⁶ From a broader level, however, many of these issues relate to the lack of a national regulatory system and, subsequently, a robust national database on the CHP sector.

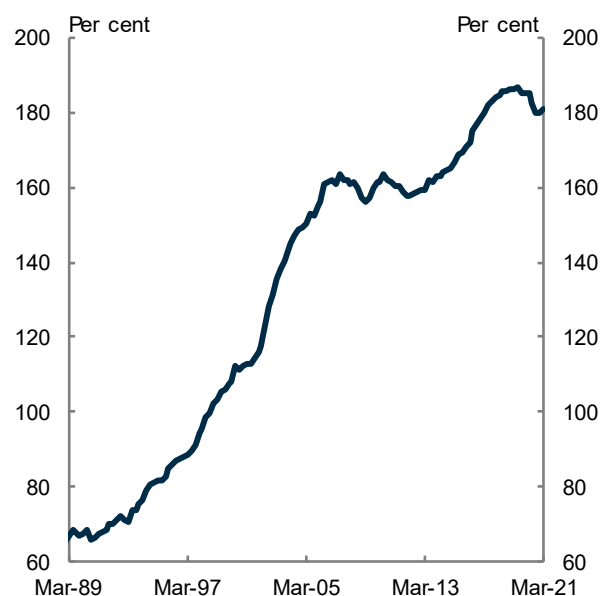
The scale of the social and affordable housing challenge

Australia, like many other advanced economies, has seen a secular decline in housing affordability over the past three decades. This decline is most easily described by the sharp and sustained increase in the ratio of house prices to household disposable incomes since the early 1990s. This corresponds to a similar increase in household debt to household disposable incomes (see **Figure 6**). The drivers of this long-run deterioration in housing affordability are multifaceted and have been well documented elsewhere. However, an understanding of the evolution of affordability in the broader housing market is important for explaining trends in the demand for social and affordable housing.

Notwithstanding the long-run decline in housing affordability seen since the early 1990s, housing affordability for most Australians has generally improved over the past few years. From around 2017, a period of general weakness in both house prices and rents, together with very low mortgage interest rates, had helped to somewhat reverse the long run decline in housing affordability. The provision of temporary financial assistance to households during the COVID-19 pandemic, policies to support first home buyers and new home builders, the closure of international borders and even more accommodative monetary policy settings further supported housing affordability. Nevertheless, much of this support is temporary and house prices have begun to rise quite rapidly most recently.

This follows an extended period in which outright homeownership had become increasingly out of reach for many Australians. Homeownership rates have fallen from 71.4 per cent of households in 1994-95 to 66.2 per cent in 2017-2018. The most significant declines have been seen amongst

Figure 6: Household debt to disposable income



Source: RBA.

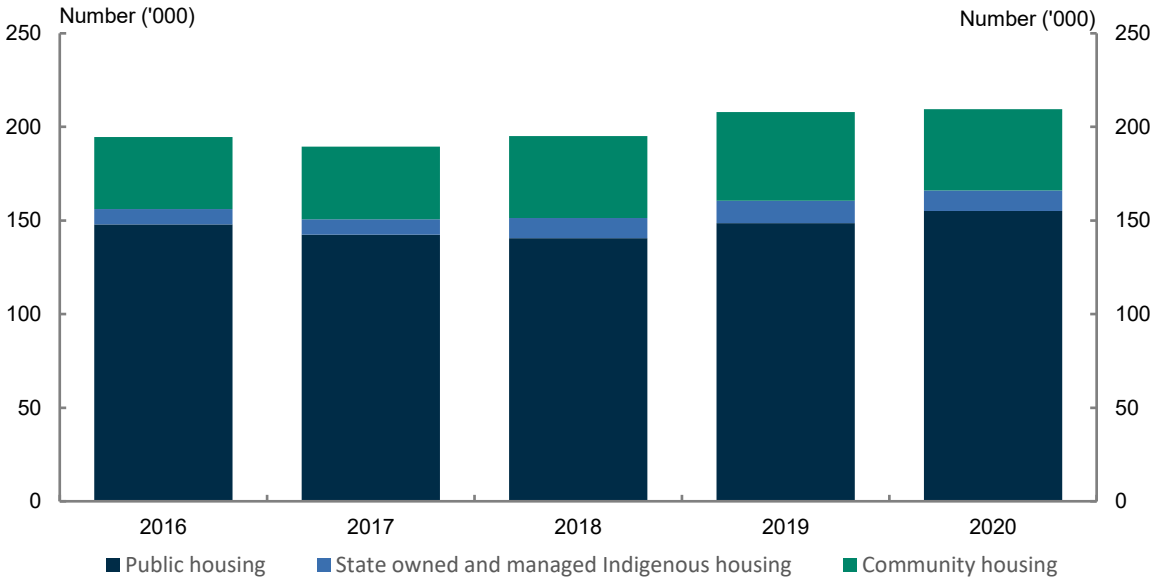
²⁶ NRSCH, 'Data needs of National Regulatory System for Community Housing Recommendations Paper', NRSCH, 2019, p 12.

younger people, with the likelihood of 30-34 year olds and 25-29 year olds owning their home decreasing by 14 and 13 percentage points respectively from 1971 to 2016.²⁷

Declining affordability in the owner-occupied housing market over this preceding period saw the proportion of households in the private rental market increase from 18.4 per cent in 1994-95 to 27.1 per cent in 2017-18.²⁸ While the stock of private rental properties grew somewhat to accommodate this increase in demand, the cost of private rental housing also increased substantially. The impact of this has been disproportionately felt amongst lower income households. A recent estimate was that 43 per cent of low-income households are in housing stress, an increase from 35 per cent in 2008.²⁹

Affordability pressures in the private rental market have seen an increase in demand for social housing. An indicator of increased demand for social housing is the number of households on waiting lists. As at 30 June 2020, there were 155,141 households on public housing waiting lists,³⁰ an increase from 147,884 at 30 June 2016.³¹ Around 43,500 people were on waiting lists for community housing in 2020 – see **Figure 7**.

Figure 7: Social housing waiting lists (2016-2020)



Note: Applicants on waiting list as at 30 June. Excludes applicants for transfer.

Source: Productivity Commission, *2021 Report on Government Services*, Part G, Section 18, Housing Data tables 18A.5, 18A.6 and 18A.7.

Time spent on waiting lists also provides an indicator of pressures in the social housing sector. Households with greatest need are generally allocated social housing places first. Of the almost 14,000 new entrants to public housing with greatest need in 2019-20, around 42 per cent were allocated a place in less than 3 months. However, of the 4,225 other households allocated in

27 Australian Institute of Health and Welfare (AIHW), *Home ownership and housing tenure*, AIHW website, 2021, accessed 3 August 2021. <https://www.aihw.gov.au/reports/australias-welfare/home-ownership-and-housing-tenure>

28 ABS, *Housing occupancy and costs 2017-18*, Table 1.3.

29 SGS Economics and Planning, 'Rental Affordability Index: December 2020 key findings', SGS Economics and Planning website, 2020, p 40.

30 Productivity Commission, *Report on Government Services Section 18A.5 and 18.A.7* [data sets], 23 January 2021.

31 AIHW, *Housing Assistance in Australia 2021*.

2019-20, over 28 per cent had waited between 2 and 5 years, and a further 17 per cent had waited more than 5 years to be allocated.³²

It is likely that data from social housing waiting lists significantly understates the true number of households in need of social housing. A significant number of households may be discouraged from applying for social housing because they believe the chances of securing a tenancy, given the size of the waiting lists, are slim. Moreover, it is also likely there are households that are reluctant to apply for social housing due to the stigma attached to being dependent on social housing.

An alternative approach is to measure the 'unmet need' for social housing by estimating the number of households that are currently either homeless or low income (in the lowest income quintile) and that are experiencing 'rental stress' (where 'rental stress' is defined as paying over 30 per cent of income in rent). Using data from the 2016 census, UNSW estimated that there were 437,000 households that had an unmet need for social housing.³³ The authors also estimated that the unmet need for affordable rental housing (defined as households in the second lowest income quintile and that are experiencing rental stress) was a further 213,000 households in 2016.³⁴

AHURI argues that an additional 727,300 social housing dwellings are required by 2036 nationwide to meet future projected need, or an annual average growth of 5.5 per cent.³⁵ This would require a significant increase in the pace with which Australia has been adding to its stock of social housing. Australia's social housing stock grew by just 7 per cent (or 28,900 dwellings) over the 13 years to 2019. Most of this growth has taken place in the community housing sector, which grew from 32,300 dwellings in 2006, to over 110,000 dwellings in 2020, largely due to stock transfers from public housing authorities (see **Figure 8**).³⁶ New additions to the total stock of public housing dwellings have been minimal. Rates of public housing construction have fallen from above 10,000 per year over the late 1980s and early 1990s to just over 2,000 in 2020 (see **Figure 9**).³⁷

32 AIHW, *Housing Assistance in Australia 2021 - Social Housing Households*, Table HOUSEHOLDS.17 [data set], June 2021.

33 L Troy, R van den Nouwelant and B Randolph, *Estimating need and costs of social and affordable housing delivery*, City Futures Research Centre UNSW, 2019, p 1.

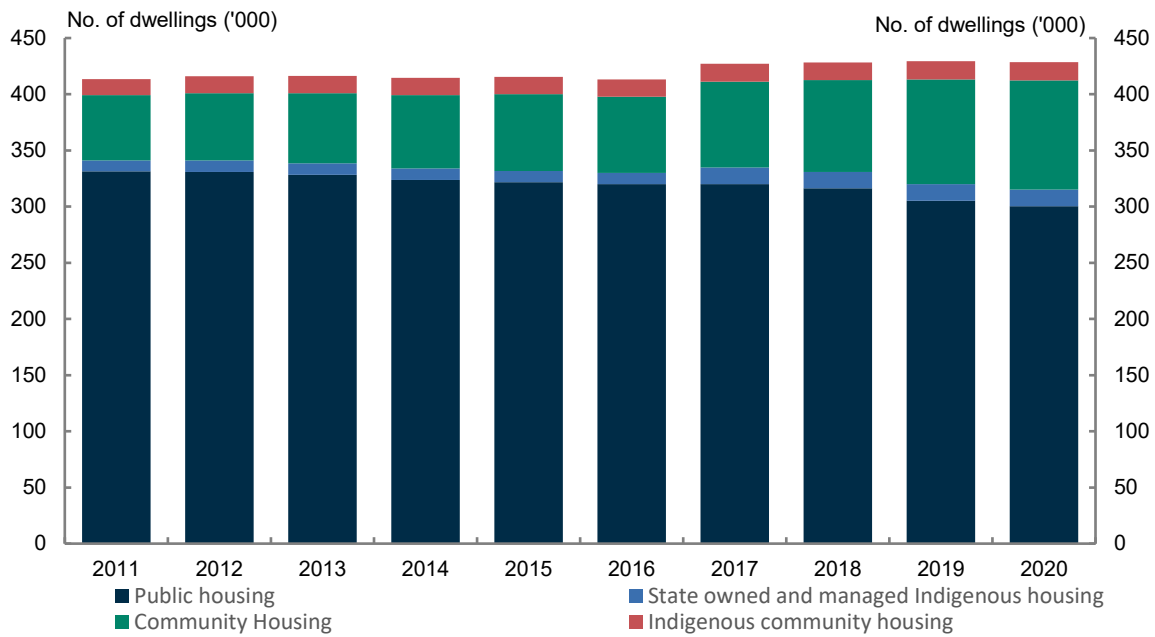
34 L Troy et al, 2019, p 1.

35 J Lawson et al, 2018, p 55.

36 AIHW, 'Housing Assistance in Australia', AIHW website, 5 Aug 2020.

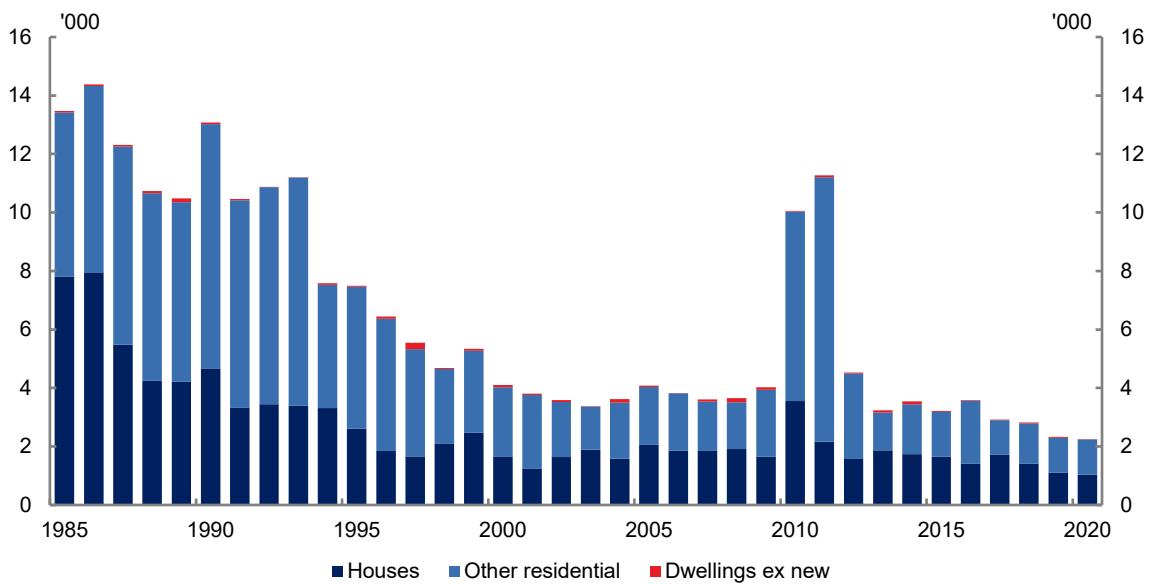
37 ABS, *Building Activity Australia*, Table 39 [data set], Mar 2021.

Figure 8: Number of social housing dwellings (2011-2020)



Source: Productivity Commission, *2021 Report on Government Services*, Part G, Section 18, Housing Data tables 18A.5, 18A.6 and 18A.7.

Figure 9: New public housing unit completions, annual



Note: “Houses” are detached public housing dwellings (may include a small number of defence housing dwellings); “Other residential” are attached or semi-detached public housing dwellings (such as apartments and townhouses); and “Dwellings ex new” are dwellings that have been converted into public housing from other uses (such as commercial office blocks). The sharp rise in completions in 2010 and 2011 mostly related to the Commonwealth Government’s “Social Housing Initiative” - for more information, see: https://www.dss.gov.au/sites/default/files/documents/11_2013/social_housing_initiative_fact_sheet.pdf

Source: ABS, 8752.0 Building Activity, Australia. Table 39. Number of Dwelling Unit Completions by Sector, States and Territories: Original.

What is the quantum of investment required to close the supply gap?

While Australia is certainly not alone in facing a structural undersupply of social and affordable housing, meeting the challenge will require a substantial upscaling of investment in the sector.³⁸ To give a sense of the scale of the challenge, the Review has sought to estimate the quantum of investment required to close the supply gap over the next two decades. To the Review's knowledge, this is the first such estimate produced in Australia, however we borrow substantially on previous work conducted by UNSW and AHURI.

The Review takes as its starting point estimates of the current and projected unmet demand for both social and affordable housing dwellings in Australia produced by UNSW and AHURI. Estimates of the 'per unit' cost of developing and operating the required additions to the total stock from the UNSW and AHURI are also adopted. It was assumed that the structural undersupply is gradually closed through to 2040. Further information on the Review's methodology is at **Appendix 1 – The shortfall of social and affordable housing**.

The result is that the Review estimates a total capital investment of around \$290 billion will be required over the next two decades to meet the current and projected shortfall of social and affordable housing dwellings.

Meeting the challenge

The split of housing policy responsibilities across governments is outlined in the National Housing and Homelessness Agreement (NHHA). State and territory governments have primary responsibility for social housing in Australia, including the provision and operation of public housing and regulation of the CHP sector.

As discussed above, state and territory governments have for some time now been generally pursuing a policy of transferring existing public housing stock to the CHP sector to help support the sector's growth whilst making only very modest direct investments in new public housing stock. The Review notes, however, that recognition of the need for greater investment in public housing has seen some states and territories make the construction of new social and affordable housing a key pillar of their economic recovery plans from the COVID-19 pandemic.³⁹ For example, in November 2020, the Victorian Government announced \$5.3 billion for the *Big Housing Build* to construct more than 12,000 homes throughout metro and regional Victoria.⁴⁰

Local and state governments play a significant role in the supply of housing, through their administration of the planning and development systems. Local councils wield considerable power in directing and encouraging the development of affordable housing stock, and may pursue strategies such as inclusionary zoning or voluntary planning agreements to include the delivery of social and affordable housing stock as part of urban development.

38 McKinsey estimated that the global housing affordability gap in 2014 was US \$650 billion per year, or 1 per cent of global GDP. To provide sufficient affordable housing on a global scale by 2025 would require an investment of \$9 to \$11 trillion for dwelling construction, and up to \$16 trillion when land costs are included. McKinsey outlined solutions towards increasing supply of affordable housing, including unlocking land at the right location, reducing construction costs through value engineering and industrial approaches, increasing operations and maintenance efficiency, and reducing financing costs for buyers and developers. McKinsey Global Institute, *A blueprint for addressing the global affordable housing challenge*, McKinsey and Company, 2014.

39 This includes Victoria's Big Housing Build program which will provide \$5.3 billion in social and affordable housing and \$812 million for new and upgraded social housing in NSW. A number of states and territories also implemented stamp duty and land tax concessions to subsidise the cost of new construction.

40 Premier of Victoria, The Hon Daniel Andrews, media release of 15 November 2020, available at <https://www.premier.vic.gov.au/victorias-big-housing-build>.

In the 2021-22 financial year, the Commonwealth expects to spend around \$9 billion in housing assistance programs, including around \$5.3 billion in Commonwealth Rent Assistance (CRA) and around \$1.6 billion under the NHHA. CRA is a supplement attached to eligible welfare payments payable at the rate of 75 cents for every dollar of rent above the relevant rent threshold. The maximum payment for a single person with no dependents is \$140.80 per fortnight. As at September 2020, over 1.7 million households received CRA. CRA assists low-income renters avoid rental stress; at 26 June 2020, CRA helped to reduce the proportion of recipient households in rental stress from 55.4 per cent to 29.4 per cent.⁴¹ Tenants of community housing, but not public housing, generally qualify for CRA. This allows CHPs to set higher rates of rent so that tenants become eligible for the maximum rate of CRA without leaving them worse off. CRA offsets the increase in rent for the tenant and flows through to CHP revenue.⁴²

While the Commonwealth provides significant funding and assistance to state and territories to support housing and homelessness outcomes, it is constrained by the Constitution in directly funding housing supply. The Commonwealth is empowered under the Constitution to make laws for a range of functions, including with respect to corporations, external affairs and banking, and it is these powers, amongst others, that enable the operation of NHFIC.

Commonwealth-provided funding under the NHHA is contingent on states and territories developing housing strategies that address relevant housing priority policy areas. The priority areas include social housing, community housing support, affordable housing, tenancy reform, home ownership and planning and zoning initiatives.⁴³ The Commonwealth also increased the capital gains tax discount to 60 per cent for dwellings provided to low-to-moderate income tenants at rents below the private market rental for at least three years.

It is not within scope of this Review to comment on the relative policy merits of greater direct public provision of social housing versus the alternative of leveraging greater private sector provision. Nor does it seek to identify which level of government bears the greatest responsibility for addressing the shortfall in social and affordable housing - in reality, meeting the scale of this challenge will require concerted effort across all levels of government as well as active participation by the private sector.

The Review notes that the advent of NHFIC provides an innovative mechanism whereby the Commonwealth can more directly influence the provision of social and affordable housing. Currently, the size of NHFIC's balance sheet is constrained by a cap on liabilities it can incur under the bond aggregator of \$3 billion. It has a further \$1 billion in investment capacity under the NHIF. From the above analysis, Australia faces an investment requirement of around \$290 billion in order to close the current and projected shortfall in social and affordable housing dwellings. It is the Review's strong opinion that, in order for NHFIC to make a meaningful contribution to meeting that shortfall it has to play a catalysing role that 'crowds in' private sector financiers to deliver social and affordable housing at scale. In doing so, it has to be supported by other arms of government (across the spectrum of local, state and territory, and Commonwealth government). We expand on this further in the following chapters.

41 Department of Social Services, Annual Report, 2020, p 39.

42 Community Housing Federation of Australia (CHFA), *Allocation, eligibility, and rent setting in the Australian community housing sector*, CHFA, 2014, p 11.

43 Council on Federal Financial Relations (CFFR), *National Housing and Homelessness Agreement*, CFFR website, agreement signed in 2018, p 16.

https://www.federalfinancialrelations.gov.au/content/npa/other/other/NHHA_Final.pdf

Chapter 2 – What has the NHFIC Act achieved to date?

Key points

- *The Affordable Housing Bond Aggregator has exceeded initial expectations. It has become one of the largest issuers of social bonds in the Australian domestic market and has provided community housing providers with lower-cost, longer-term finance.*
- *While NHFIC's bond issuance has been generally successful, further work is required to develop a self-sustaining market for affordable housing bonds. There is the potential for further efficiencies in the bond issuance process.*
- *Uptake of the National Housing Infrastructure Facility has been slow and it has struggled to gain interest from eligible project proponents. There is a significant volume of potentially eligible projects in the pipeline, though it remains to be seen how many of these projects will progress to formal applications and beyond.*
- *The size of the grants available under the Capacity Building Program is too small to make a material difference to developing the financial and management capability of the community housing sector. Smaller providers in particular need more assistance, and a different type and level of assistance.*
- *The Government's stated objective of the First Home Loan Deposit Scheme is to facilitate earlier access to the housing market by first home buyers. Evidence presented to the Review indicates that the FHLDS appears to be achieving this objective for that cohort of first home buyers who are able to secure a FHLDS guarantee. The limited evidence available indicates that the FHLDS has mostly brought forward buyers who would have entered the property market relatively soon, rather than buyers who would have otherwise struggled to enter the market at all.*
- *NHFIC's research function is too broad, and consequently too shallow. A more valuable research program would be conducted under a more specific mandate that leveraged the agency's core competencies and filled an important knowledge gap in the housing sector.*
- *The governance requirements for NHFIC set out in the NHFIC Act have facilitated the establishment and early success of NHFIC. The appointment of a Government observer to the Board was made at a time of significant expansion to NHFIC's functions and the Review notes that it is important for the Government to have greater visibility at such times. However, it is desirable to return to a standard governance model at the earliest opportunity.*

Affordable Housing Bond Aggregator

Background

The concept of a bond aggregator to support the financing needs of the social and affordable housing sector had a relatively long gestation period in Australia. Early work led by AHURI and others advocated for the development of a financial intermediary to allow social and affordable housing providers access to the longer tenor (and potentially lower cost) funding available via bond markets.

The sector, it was argued, was not well serviced by traditional financial intermediaries. Social and affordable housing providers hold very long-lived assets. Commercial banks, however, were only willing to lend over relatively short terms and at relatively high interest rates, partly due to concerns over the reputational costs and difficulty of recovering assets in the event of default. These financing constraints were hampering the sector's ability to develop scale and meet a growing need for social and affordable housing.

Given the vast majority of social and affordable housing providers were not sufficiently large to issue debt securities in their own right, a bond aggregator could pool their collective borrowing requirements and issue long term debt securities to institutional investors, backed by loans to CHPs. The benefits of longer tenor and lower cost finance would, it was argued, help the sector develop the scale efficiencies that were required to make meaningful inroads into the growing demand for social and affordable housing.

In its 2016 report to Government, the AHWG concluded that a bond aggregator model would afford a number of benefits to the sector, including:

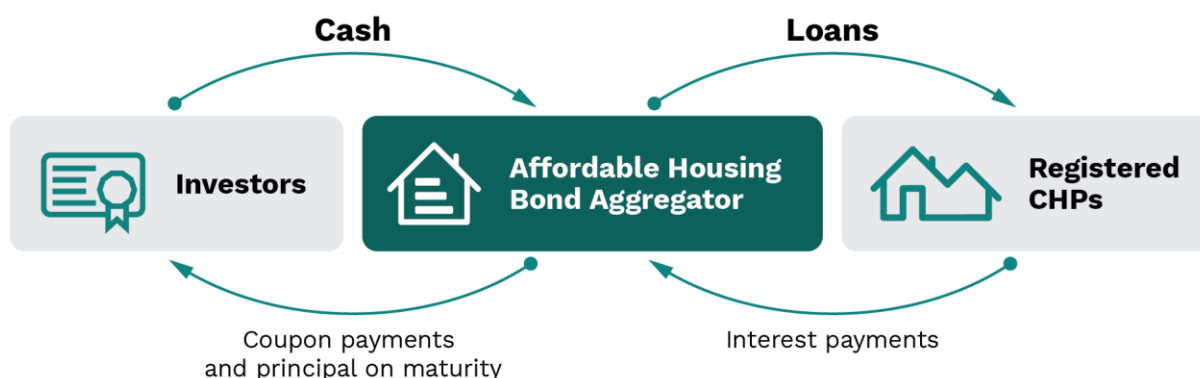
- enabling providers to refinance their existing borrowings and finance new developments at lower cost and longer tenor; and
- creating a market for private affordable housing investment that both normalises and expands flows of capital into the industry.

In response to the 2016 AHWG report, the Government agreed to establish the Affordable Housing Implementation Taskforce. The Affordable Housing Implementation Taskforce, supported by advice and modelling from EY, found that a bond aggregator was viable in Australia and recommended a number of key design features, including the issuance of fixed-interest bullet bonds and the use of a 'pass-through' intermediary structure that matches the financing requirements of the community housing sector with the investment preferences of institutional investors. The Government agreed with these recommendations and announced the establishment of NHFIC to operate the AHBA.

How the AHBA works

The AHBA is a financial intermediary that operates by making loans to eligible CHPs and financing those loans by issuing bonds to institutional investors. These 'social bonds' are backed by the security underlying those loans to CHPs and are ultimately supported by a Commonwealth guarantee. The support of the Commonwealth guarantee allows NHFIC to raise funds at a lower cost, with this cost benefit largely passed on to CHPs. The Commonwealth guarantee is currently capped at \$3 billion. NHFIC cannot incur liabilities above the cap without prior agreement of the Minister for Housing and the Minister for Finance.

Figure 10: the Affordable Housing Bond Aggregator



The operations of the AHBA are supported by a \$1 billion Special Account. This allows NHFIC to draw down on a line of credit, providing a warehouse facility to advance loans to CHPs before a sufficient volume of loans has been made to enable a bond issuance. When NHFIC repays an amount it has borrowed (i.e. with the proceeds from a bond issuance), the amount is credited to the Special Account and is available to be redrawn.

Operations of the AHBA to date

Against most benchmarks, including NHFIC’s own targets as set out in its corporate plans, the AHBA has exceeded initial expectations. In the three years since establishment, NHFIC has operated as a significant new financial intermediary: it has extended loans to CHPs totalling more than \$2.5 billion and made five separate issues of a new class of ‘social bonds’ – making it one of the largest issuers of social bonds in the Australian domestic market. It has also issued a sustainability bond, where the proceeds will be used for funding social and affordable housing with positive environmental impacts.

Implementation of the AHBA has clearly benefited from the thoughtful policy development process that led up to its establishment. The AHBA has delivered a number of positive benefits, including improved access to lower-cost, longer-term finance for CHPs and the facilitation of greater private sector investment in the CHP sector. While it is unlikely that this could have been achieved without the support of the Commonwealth guarantee, the Review commends NHFIC on successfully operationalising the AHBA.

The majority of AHBA financing in this early phase of NHFIC’s operations has supported the refinancing of CHP loans against existing social and affordable housing assets, with its investment in new housing stock being relatively modest thus far. The Review acknowledges that NHFIC’s initial focus on refinancing, rather than origination, improves the financial base of the CHPs. The replacement of existing loans with lower cost AHBA financing will help CHPs build equity that they can use to support investments in new stock over time. The Review also notes that NHFIC has more recently demonstrated an increase in lending for the construction of new dwellings, including a \$32 million loan to AnglicareSA Housing Ltd, part of which will finance the construction of new social housing units for residents aged over 55, and a \$55 million loan to Housing Choices Australia Limited, \$18 million of which will finance the construction of 76 social housing dwellings in the Melbourne region.⁴⁴

Improved access to finance for the CHP sector

In the Review’s consultations, stakeholders overwhelmingly acknowledged that the AHBA has achieved one of its main objectives of providing CHPs with access to lower-cost, longer-term finance. Typically, banks and other lenders would only offer 3 to 5-year loans to CHPs, while a recent NHFIC

⁴⁴ NHFIC, *National Housing Finance and Investment Corporation Social Bond Report 2019-20*, 2020.

bond issuance provided 15-year loans to CHPs. This has enabled CHPs to substantially reduce refinancing risks and better control their operating expenses, a significant advantage given the thin margins on which most CHPs operate.

To date, NHFIC has approved over \$2.5 billion of loans to CHPs. These loans have supported the delivery of more than 4,600 new and the refinancing of more than 8,300 existing social and affordable dwellings. By value, more than 50 per cent of these loans are to CHPs in NSW, over 30 per cent in Victoria, and the remainder in South Australia, Western Australia, Tasmania and Queensland. It is anticipated that these loans will collectively save CHPs around \$420 million in interest payments over the term of the loans. A summary of NHFIC's loans to CHPs can be found at **Appendix 2**.

The finance available via the AHBA assists CHPs to:

- redeploy interest savings to build additional community housing;
- consider new community housing development opportunities that otherwise may not have been economic without AHBA financing; and
- better match debt maturity to asset life, to reduce refinancing risk.

Although NHFIC's ability to offer better loan terms than private lenders has provided a number of benefits to the CHP sector, some stakeholders have expressed concerns that this may consequently be reducing the extent to which private lenders are operating in the sector. There are two main reasons cited for this – firstly, that NHFIC's Government guarantee-supported lending terms are difficult for private lenders to compete with, and secondly, that NHFIC's loan security requirements may be impacting CHPs' ability to source finance from other lenders. In particular, some stakeholders consider NHFIC's tendency to take first-ranking security over the majority of a CHP's assets inhibits CHPs' ability to access other forms of finance, and that this requirement should be reconsidered with a view to removing unintended constraints on the sector's access to finance. We expand on this in the following chapter.

Greater private sector investment

NHFIC's bond issuances have successfully raised around \$2 billion from the Australian debt capital market. NHFIC's investor base has broadened over the past three years, with 26 investors participating in NHFIC's first bond⁴⁵, 31 investors (including 11 new investors) participating in its second bond and 35 investors (including 7 new investors) participating in its third bond⁴⁶. NHFIC advised that its bonds have attracted numerous repeat investors, particularly domestic asset managers (including superannuation funds), who are likely to continue to invest in future issues.

Investors in NHFIC bonds have been predominantly domestic; Australian institutional investors have represented 73 to 95 per cent of the investors across NHFIC's bond issues. However, NHFIC has also observed growing interest from foreign investors. This interest is likely to grow as NHFIC becomes more established and the market for NHFIC bonds matures.

Asset managers have represented between 61 to 86 per cent of the market for NHFIC bonds. A number of large Australian superannuation funds have participated in each bond issue and stakeholders observed there is an increasing desire for superannuation funds to invest in social and affordable housing, and the NHFIC bond provides superannuation funds (and other institutional investors) with an opportunity to invest in the sector at scale.

Each NHFIC bond issue has attracted strong institutional investor interest, with the volume of bids significantly exceeding the volume of each bond issued. A joint lead manager for the first three transactions summarised the main drivers of investor demand for NHFIC bonds as being the AAA

45 NHFIC, *National Housing Finance and Investment Corporation Social Bond Report 2018-19*, 2019

46 NHFIC, *National Housing Finance and Investment Corporation Social Bond Report 2019-20*, 2020.

credit rating afforded by the explicit Government guarantee and their social bond status, attracting those with a strong Environmental, Social and Governance (ESG) investing focus.

Stakeholders submit that the bond issuances have been successful in bringing about much needed long-term investment to the CHP sector. They also described the Government guarantee as critical to driving investment, as it provides investors with confidence while this new asset class for affordable housing is being established. Anecdotal evidence is that secondary market trading for these bond lines is limited, suggesting the vast majority of investors in these bonds are of the ‘buy and hold’ variety who generally intend to hold the bonds to maturity.

Despite the success of NHFIC’s bond issuances, some stakeholders have indicated that there is a lack of evidence of a market having been developed for affordable housing bonds. Some stakeholders have suggested that most investors are purchasing these bonds simply due to the yield pick-up relative to Australian Government Securities (AGS), rather than because of any particular interest in the asset class. If the guarantee were removed it is possible that this class of investors would no longer invest in affordable housing bonds. In other words, they claim that a self-sustaining market for these bonds that could operate without the Government guarantee has yet to develop.

Commonwealth balance sheet implications and NHFIC’s risk management

The Commonwealth guarantee of NHFIC’s liabilities is reflected as a contingent liability on the Commonwealth balance sheet. The guarantee is designed to support market confidence in the activities of the AHBA and strengthen NHFIC’s ability to improve housing outcomes. Domestic and international experience indicates that the prospect of calling on the guarantee appears to be minimal. CHPs operating in Australia have generally had a strong credit history and the sector as a whole is conservatively geared, with the total level of debt across Tier 1 and Tier 2 CHPs only around 12 per cent of their total assets.⁴⁷ An international review of seven European and US social housing guarantee schemes shows a near zero historical default rate, and therefore minimal impact on those government accounts, from the operation of a guarantee – in some cases over decades of operation.⁴⁸

NHFIC has established mechanisms to manage the risks associated with issuing loans by adopting a similar approach to commercial banks, including the processes by which it assesses the creditworthiness of potential CHP borrowers and the feasibility of proposals. NHFIC’s Investment Mandate requires NHFIC to obtain security from CHPs for any loan that it provides, at a level that is appropriate having regard to the risk to NHFIC and the Commonwealth. NHFIC is also required to develop a portfolio of loans that in aggregate has an acceptable level of risk.

NHFIC’s loans to CHPs are secured either against the assets held by the CHP, with appropriate loan covenants (including loan-to-value ratio and interest coverage ratio limits) approved by the NHFIC Board, or on a cash-flow basis where there is some form of long-term support from government (such as through the NSW Social and Affordable Housing Fund, which is providing a regular payment stream to CHPs under 25 year contracts to provide social and affordable accommodation and related services). NHFIC also generally requires CHPs to enter General Security Arrangements to ensure the priority of NHFIC loan repayments and recourse to security assets. NHFIC requires regular compliance reports from CHP borrowers to ensure that loan funds are being used for the agreed purpose and loan covenants are being complied with.

Given the nature and purpose of social and affordable housing, in the event that a CHP were to become financially distressed, the Review anticipates that NHFIC would work cooperatively with relevant state and territory bodies with the intention to either remediate the situation or reallocate

47 NRSCH, *NRSCH Snapshot Report – 2019-20: Financial Performance*, 2020.

48 J Lawson, *The use of guarantees in affordable housing investment – a selective international review*, AHURI, 2013.

the properties managed by the CHP to an alternative provider, rather than seek to liquidate assets. The Review understands that NHFIC's observed preference to be the pre-eminent creditor to the CHPs it lends to mostly reflects its desire to be able to control the remediation and reallocation process in the event a CHP became financially distressed.

The efficiency of NHFIC's bond issuance

The Government considered a number of models when designing the AHBA, informed by various policy objectives. These objectives included: providing substantially cheaper and longer tenor debt for CHPs; and encouraging private sector investment in affordable housing through the creation of a new financial asset.

One model considered was to simply raise funding via the issuance of 'plain vanilla' Australian Government Bonds (AGBs), where the funds would be on-lent to NHFIC. It was recognised that direct Government funding in this manner would be the cheapest and most efficient way of providing finance to the CHP sector. However, this model is inconsistent with the objective of encouraging the development of a new asset class.

The model whereby NHFIC issues bonds in its own name, supported by loans it makes to CHPs and ultimately backed by a Government guarantee, was chosen as the preferred model. This approach places the bond aggregator's liabilities outside of the General Government Sector classification and its liabilities do not contribute to gross public debt.

NHFIC has raised around \$2 billion through its bond issuance program to date, which provides some evidence base for assessing the efficiency of the chosen model. The evidence from the analysis confirms that the most efficient and cost-effective model would have been to meet the AHBA's funding requirements via the issuance of AGBs. Although NHFIC bonds are AAA rated and backed by a Government guarantee, the bonds have been issued at a spread (a higher interest rate) to the equivalent AGB, which are also Government guaranteed bonds. **Table 1** provides summary information on the NHFIC bonds issued. The analysis excludes the \$100 million floating rate note which NHFIC issued on 9 June 2021.⁴⁹

49 The floating rate note is excluded from the analysis as it was a relatively bespoke financing product which NHFIC issued to raise funds for a single CHP. The analysis considers the efficiency of the fixed rate bonds issued to fund aggregated loans under the AHBA, which make up the vast majority of NHFIC's bond issuance to date.

Table 1: NHFIC's bond issues

Maturity Date	28 March 2029	27 May 2030	29 June 2032	30 June 2036	1 July 2031
Coupon	2.38%	1.52%	1.41%	2.335%	1.74%
Volume Outstanding	\$315m	\$315m	\$562m	\$343m	\$362m
Launch Date	28 March 2019	27 November 2019	29 June 2020	2 June 2021	15 June 2021
Spread to equivalent AGB at issue	48.3bp to the April 2029 bond	37.8bp to the May 2030 bond	38bp to the May 2032 bond	21.7bp to the April 2037 bond	21.5bp to the June 2031 bond
Cost of issuance at spread⁵⁰	\$13.5m	\$11.5m	\$23.5m	\$9.4m	\$7.2m
Total cost of issuance at spread	\$65.1m				

This data shows that the cost of issuing NHFIC bonds compared to obtaining the same funding through the issuance of AGBs was over \$65 million over the five NHFIC bonds issued. This means that investors in NHFIC bonds are compensated at a significantly higher rate for lending to NHFIC than for lending to the Commonwealth directly, despite being exposed to the same amount of credit risk (as both bonds are Government guaranteed). The primary driver of this spread is the relative illiquidity of NHFIC bond lines compared to AGBs. AGB lines can exceed \$30 billion which makes trading significantly easier and cheaper. There is also a broader market for investors to participate in with 29 AGB lines on issue compared to the small number of NHFIC lines. NHFIC's investor base is likely to be limited by investors' willingness to perform due diligence on NHFIC debt. Investors devote time and resources into analysing investment options, and new lines from new issuers require more analysis than those from issuers with a track record. NHFIC's investor base is also narrower than that for AGBs as some investors' mandates may not permit investments in new issuers/asset classes.

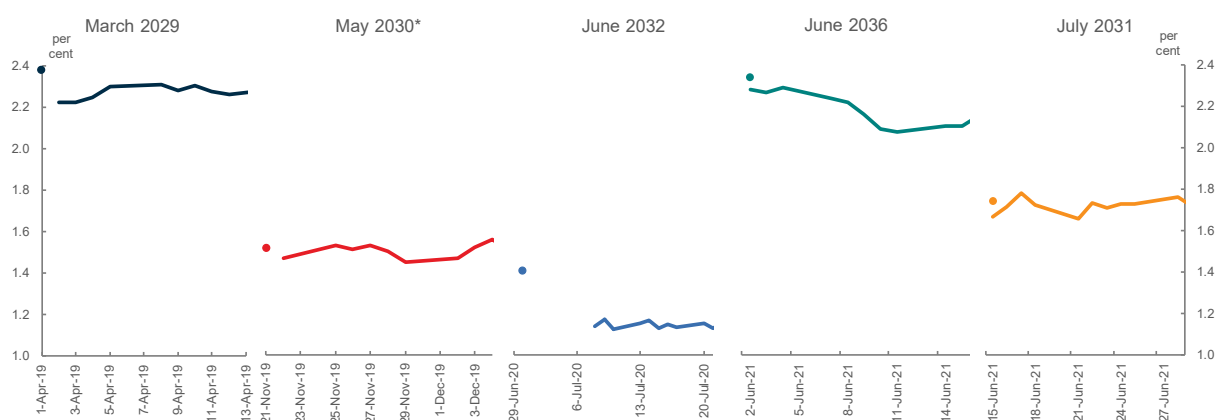
As NHFIC issuance increases, the illiquidity cost should reduce. NHFIC's issuance record to date provides evidence to support this. This can be seen in the narrowing of issuance spreads to AGBs between the first three and final two NHFIC bond issues. While the issuance spread for the third NHFIC bond issue was slightly wider than the preceding issue, it was of a much larger volume and also the first time NHFIC had issued at the 12-year tenor – factors which tend to increase the spread at issuance.

NHFIC's bond issues were initially priced at a discount to subsequent market trading. This 'new issuance concession' is consistent with the general practice that a new issuer without an established track record needs to offer investors a pricing discount (a higher yield) in order to attract interest and to give initial investors a positive experience so that they are more likely to return for future issuance. **Figure 11** shows the initial yield at issue of each NHFIC bond and the first 10 days of secondary market yields as reported by Reuters. The difference between the dot and subsequent line is considered to be, in part, the new issuance concession. It shows that the new issuance concession

⁵⁰ This is the additional cost borne by NHFIC in issuing their own bonds instead of raising the same amount through the sale of AGBs of an equivalent tenor.

provided to initial investors in NHFIC bonds has been significant – up to 26 basis points on the June 2032 issue.

Figure 11: NHFIC bond yields at issue and post issue



Note the dot indicates the initial yield at issue. *Secondary market data is incomplete. The data is reliant on recorded secondary market data, which for small, illiquid lines like NHFIC bonds may not be based on significant trading volume. Trading data for the June 2032 bond line is only available from 8 July 2020. Source: Refinitiv secondary market pricing data

Table 2 is a comparison of NHFIC’s issuance to similar issuers, with an estimate of the new issuance concession for each issuer. The analysis compares the estimated new issuance concession on NHFIC’s three bond lines to new lines of a similar tenor established during the same time period by the major state government issuers – the New South Wales Treasury Corporation (NSWTC) and Treasury Corporation of Victoria (TCV), and the Commonwealth’s Export Finance Australia (EFA). It should be noted that many factors can affect a bond’s initial pricing including: tenor, issuer market presence, market conditions at time of issue and specific investor appetite.

Table 2: New issuance concession on NHFIC bonds[#]

Issuer	NHFIC					NSWTC	TCV	EFA
Bond line	28 March 2029	27 May 2030	29 June 2032	30 June 2036	1 July 2031	Average of 5 issues in 2019 and 2020	Average of 5 issues in 2019 and 2020	Average of 2 issues in 2020
Concession (basis point)	12	2*	26	8	3	8	16	4

[#] Note that the calculated new issuance concession is the difference between the issue yield and the average of the first five days of trading data as reported by Yieldbroker/Refinitiv. Trading data for the 29 June 2032 bond line is only available from 8 July 2020.

*Secondary market data is incomplete. The analysis above is reliant on recorded secondary market data, which for small, illiquid lines like NHFIC bonds may not be based on significant trading volume.

This analysis is suggestive of some inefficiencies in NHFIC’s issuance, given the significant spread reduction priced by the market directly post issuance, particularly for the June 2032 bond. However the two most recent NHFIC bond issues have been priced with a significantly smaller concession. As

NHFIC becomes a more experienced issuer, the new issuance concession should reduce. The large established state government issuers (NSWTC and TCV) and a comparable Commonwealth Government-guaranteed agency (EFA) have on average issued with a relatively low concession over a similar timeframe.

NHFIC bonds are independently confirmed⁵¹ as satisfying relevant ESG principles and are designated as a social or sustainable⁵² bond, which can increase their appeal to some investors that have specific mandates to invest in ESG assets. ESG is the application of an environmental, social and governance filter to investment decisions, and is a growing investment practice, with some estimates⁵³ indicating that it accounts for a quarter of global funds under management. In line with this trend, an increasing number of funds and institutional investors are specifically allocating funds to ESG bond programs. Although the effect is likely to have been small to date, this trend should be a positive driver for future demand for NHFIC social bonds and may have a beneficial impact on their pricing over time. The expansion of NHFIC's ESG offering to sustainable bonds could result in a more diversified investor base and may further contribute to better issuance outcomes in the future.

National Housing Infrastructure Facility

Background on the NHIF

The NHIF is a \$1 billion facility that provides finance and grants for eligible infrastructure projects. It seeks to overcome impediments to the provision of housing that are due to the absence of critical infrastructure.

The NHIF provides finance in the form of loans, equity investments and grants for eligible critical infrastructure projects that support new housing developments. The NHIF's \$1 billion is appropriated in equal annual instalments of \$200 million between 2018-19 and 2022-23.

The design of the NHIF, including its eligibility criteria and the criteria for NHFIC's financing decisions, is specified in Part 4 of the Investment Mandate. In order to provide finance under the NHIF, NHFIC must be satisfied that the project and the project proponent are eligible as specified in the Investment Mandate.

The Investment Mandate specifies that critical infrastructure to support new housing includes, but is not limited to: new or upgraded infrastructure for services such as water, sewerage, electricity, telecommunications or transportation; or site remediation works including the removal of hazardous waste or contamination.

Assistance under the NHIF is available for projects that would not be able to proceed without assistance from the NHIF, would only proceed at a much later date, or would only proceed with a lesser impact on new affordable housing. In this way, the NHIF is intended to encourage 'additionality' and the accelerated supply of new housing.

It is important to note that while the Investment Mandate sets out a clear preference for affordable housing, the NHIF can also support projects which would increase the supply of housing more generally. This could include financing and grants for infrastructure that supports the construction of

51 NHFIC's bonds have been independently assessed by an external reviewer, Ernst & Young, against a framework which has been developed in line with the International Capital Market Association's Social Bond Principles and Green Bond Principles (as relevant). For more information see www.nhfic.gov.au/what-we-do/investor-relations/bond-framework/

52 NHFIC's June 2036 bond was the first NHFIC bond to be classed as a sustainability bond - this includes both the social and environmental aspects of ESG.

53 Global Sustainable Investment Alliance, *2018 Global Sustainable Investment Review*, 2018, accessed 24 March 2021. http://www.gsi-alliance.org/wp-content/uploads/2019/06/GSIR_Review2018F.pdf

mixed housing developments (which can offer a mix of market, sub-market and social housing).⁵⁴ This sets the NHIF apart from the AHBA, which is available only to registered CHPs.

A project proponent is the entity that brings forward the project and the entity to which the NHIF finance is provided for the purposes of the project. To be eligible for grants and finance under the NHIF, the Investment Mandate specifies that a project proponent must be one of the following:

- a State, Territory or local government;
- an investment corporation that is local government-owned;
- a utility provider owned by a State, a Territory or local government; or
- a registered community housing provider.

In addition, finance under the NHIF can be provided to an entity that is a special purpose vehicle. At least one member of the special purpose vehicle must be an entity listed above. The purpose of the special purpose vehicle must be to undertake housing-enabling infrastructure projects. For example, a registered CHP and a private developer could establish an entity (i.e. a special purpose vehicle) together for the purpose of undertaking a road project that would enable a new housing development.

The purpose of the NHIF is to enable and accelerate the provision of critical infrastructure linked to new housing supply (particularly affordable housing) by offering loans, equity investments and grants. The NHIF allows for project finance to be provided through any combination of NHIF loans, grants and investments, and can be used alongside financing support from other government or non-government entities.⁵⁵

The Investment Mandate provides that NHIF loans may be subject to various concessions, including longer tenors and lower interest rates than are available commercially, extended interest capitalisation periods and other tailored repayment terms.

NHFIC offers grants to eligible project proponents, which are not repayable other than in circumstances where the critical infrastructure funded by the NHIF grant is not built by a specified date or does not achieve the proposed broader housing outcomes by a specified date. In practice, a grant under the NHIF is available as part of a blended financing solution for eligible project proponents. The Investment Mandate notes that NHIF grant applications that seek other forms of NHIF finance are preferred, and NHFIC's preference is for this to occur where the requested grant itself represents a 'modest portion' of the total amount sought by the project proponent. Up to \$175 million of the funds allocated to the NHIF is available to be deployed in the form of grants.

The NHIF offers equity finance to eligible project proponents for the purposes of enabling NHFIC to acquire an equity interest in the entity responsible for delivering the relevant project. Up to \$225 million of the current allocation to the NHIF is available to finance a NHIF equity investment, although no equity investment has been made under the NHIF to date.

A project proponent seeking assistance from the NHIF is required to apply through the process that NHFIC has established in its *Guidelines for National Housing Infrastructure Facility Loans, Grants and Equity Investments*, dated August 2018 (the NHIF Guidelines). The four-stage application process is similar to that required of applicants for AHBA financing.

54 Explanatory Statement to the *National Housing Finance and Investment Corporation Investment Mandate Direction 2018*, p 9.

55 Explanatory Statement to the *National Housing Finance and Investment Corporation Investment Mandate Direction 2018*, pp 8-9.

Is there a genuine need for the NHIF?

The supply of new housing can be impeded by the need to build new or improved critical infrastructure. This impediment occurs because the cost associated with providing the necessary critical infrastructure to support housing developments can make a project unviable and limit a potential project proponent's access to finance. This has the effect of constraining the supply of housing coming into the market. This is the issue that the NHIF seeks to address.

The need to build or upgrade critical infrastructure varies from project to project, depending on the nature of the site, the location of the proposed development, the size of the proposed development and the type of project itself (for example whether it is a greenfield, urban infill or estate renewal project).

The delivery, funding and financing of critical infrastructure represents a more consistent challenge on large scale greenfield projects situated outside urban areas relative to urban infill or urban renewal projects. The following case studies demonstrate some of the problems encountered in accessing capital for critical infrastructure on greenfield projects.

Box 1: Illustrative case study – accessing capital for critical infrastructure on greenfield projects

Regional council planning scheme

Under a regional council planning scheme, 28,000 new homes are proposed to be delivered on what is currently farming land. The site requires extensive critical infrastructure development. The regional council has sought to fund the critical infrastructure component of the project through levying higher developer contributions. However, the relevant state government has rejected this proposal, resulting in an approximate \$1.3 billion shortfall in funding for the critical infrastructure component. As a result, the project has encountered difficulties in obtaining the necessary financing, numerous delays and is not complete.

This case study demonstrates the potential challenges that critical infrastructure can pose to timely delivery of new housing supply in a greenfield development. The funding shortfall has led to a significant, and ongoing, delay in substantial new housing stock coming onto the market.

Developer-led proposal

A developer requested a utility provider to finance and deliver critical infrastructure on a greenfield site. The project was not on the utility provider's priority list of projects for the next four years and the utility provider lacked balance sheet capability to finance delivery of the critical infrastructure. It was open to the developer to finance the critical infrastructure if it did not wish to wait four years for the utility provider to deliver.

Without the required capital contribution, the project will be delayed, highlighting how critical infrastructure components of greenfield projects has the potential to significantly delay new housing developments.

Financing critical infrastructure for new metropolitan housing, urban infill and housing renewal projects can also be a challenge, though it differs from the challenge posed by large scale greenfield projects. Generally, much of the critical infrastructure on these projects is pre-existing, or can be financed and constructed relatively more efficiently due to the project's proximity and connection to existing infrastructure. From time to time, projects encounter challenges surrounding contamination, demolition or a need to scale up the dwelling density. Addressing or rectifying these issues may sometimes also involve significant critical infrastructure costs.

What outcomes has the NHIF achieved to date?

In contrast to the AHBA, the implementation of which benefited from an extended policy development period, the NHIF had a much shorter policy lead in time. Also, where the design of the AHBA was informed by established models overseas, the NHIF is a relatively novel policy concept.

In this context, the Review considers it not surprising for the NHIF to have taken some time to gain traction. In preparing to roll out the NHIF, NHFIC was required to prepare policies and procedures and conduct soundings in the market. It is not unreasonable for NHFIC to have made this work a focus of its early efforts. However, it remains a matter of public record that the NHIF has not met its own performance targets set out in NHFIC's annual corporate plans. From the Review's perspective, the availability of both grants and/or equity from the NHIF, together with NHIF concessional loan financing, should be an attractive option for CHPs where the delivery of critical infrastructure is needed to support a social and affordable housing project.

In consultations the Review heard consistently that the NHIF has been difficult to access, and was poorly understood. Stakeholders pointed to a range of possible reasons for this, ranging from: a general lack of understanding as to what projects and proponents qualify for NHIF financing; eligibility criteria that set a very high bar for approval; the availability of suitable financing from other sources (such as state borrowing authorities); and a complicated and lengthy application process.

Approvals of NHIF grants and financing

As of 30 June 2021, the NHFIC Board had approved \$241.3 million in concessional loans and \$62.8 million in grants under the NHIF, from the \$600 million which had been appropriated at that time. The Review also notes that while a significant volume of potential applications are currently 'in the pipeline', the vast majority of these are at the early enquiry stage. While it's uncertain how many of these projects will progress to formal applications and beyond, the identification of pipeline projects represents a significant item of work for NHFIC.

Umbrella agreements to accelerate the NHIF approval process

Interest in the NHIF to date has been mostly from state government housing authorities and CHPs. Given constraints on state budgets, state government housing authorities have shown the most appetite for the NHIF.

A specific area of focus for NHFIC in the origination of NHIF deals has been through 'Umbrella Agreements'. An Umbrella Agreement details the basic terms and conditions upon which NHFIC will make finance available to a particular applicant under the NHIF. Each individual project sponsored by that applicant under the Umbrella Agreement will still require approval of the NHFIC Board to confirm the project meets the requirements of the Investment Mandate. The benefits of an Umbrella Agreement include providing the borrower with more certainty over the availability of NHIF financing and substantially reduced approval time.

In 2020, the NHFIC Board approved three Umbrella Agreements – two with state governments (including the NSW Land and Housing Corporation \$100 million Umbrella Agreement referred to above and the South Australian Housing Trust \$45 million Umbrella Agreement) and one with a CHP. The Review has concluded that the execution of Umbrella Agreements has the potential to accelerate the deployment of the NHIF and is a strategy worth continuing.

Feedback on the NHIF from project proponents

The NHIF has struggled to gain much interest from local government authorities. Feedback from NHFIC is that they have invested considerable time and effort in explaining the potential value of the NHIF to local government, but that this is yet to cultivate significant demand for the facility.

To date, the Review understands that no project driven by a local government has progressed beyond an expression of interest (EOI) stage. Local governments generally have access to other sources of finance and commented to the Review that NHIF pricing and terms are generally less favourable than that available through their state treasuries. For example, one state treasury corporation was cited as offering more attractive pricing and a longer loan tenor than the NHIF.

Further, there has been relatively little interest shown in the NHIF through the special purpose vehicle options. The Review heard from stakeholders that private developers are generally reluctant to enter into an equity arrangement with CHPs in special purpose vehicles solely in order to access NHIF grants and financing. The Review heard from one stakeholder that they would need to form a nominal partnership with one CHP (and make it as token as possible) in order to access the NHIF, and that this was ultimately not worth the time and cost.

Private sector stakeholders were also unclear as to whether the NHIF was available for projects which did not include a social and affordable housing component. In one instance, a stakeholder reported being told that a minimum percentage of a new housing development would need to comprise social and affordable housing to be eligible for the NHIF, even though no such minimum requirement exists in the Investment Mandate. A number of stakeholders also observed that the option for special purpose vehicles gave rise to project structuring issues and, in certain jurisdictions, potential regulatory issues.

While state government authorities have shown the most interest in the NHIF, feedback during the Review indicates there are also factors that are constraining interest from these groups. Some state government agencies said that although the pricing available under a combined NHIF loan and grant package was more attractive than its state treasury could offer, the overall process of establishing a debt facility was easier with their state treasury than with the NHIF.

Some CHPs criticised the terms of NHIF grants and the clawback mechanisms attached to them. They observed that while the concept of a NHIF grant and financing package is attractive, the process of negotiating and completing applications for relatively small amounts has been more complex and time consuming than a similar commercial bank process, which eroded the benefits the NHIF could provide. For a CHP looking to use AHBA financing to develop new social housing, and where there is a small critical infrastructure investment needed on the site, it is administratively onerous to apply separately through the NHIF for the critical infrastructure component, and therefore often uneconomic.

Stakeholders familiar with the application process for the NHIF suggested to the Review that the complexity of the application process may in part have hampered the uptake of the NHIF to date. There may be opportunities for NHIF to refine the process by amalgamating the expression of interest and formal application, which currently exist as separate steps. Greater integration of the processes for applying for the NHIF and the AHBA may also help improve the efficiency of the processes.

Capacity Building Program

Under the NHFIC Act, one of NHFIC's functions is to provide business advisory services and other capacity building assistance to registered CHPs. This function is consistent with the findings of the 2017 AHWG report, which noted that in order for the community housing sector to leverage the finance provided through the bond aggregator, it is important to ensure that the sector has the necessary financial, asset and risk management expertise.

Analysis undertaken by EY in 2017 assessed the CHP sector as having medium-to-high financial viability and the capacity to better leverage their balance sheets. EY suggested that CHPs were conservatively geared partly because of their limited financial acumen and that building staff capability and financial expertise in the sector could help CHPs to take better advantage of their

available resources.⁵⁶ Research by AHURI has found that over the past decade, a number of CHPs (particularly Tier 1 CHPs) have undertaken significant reforms to build organisational capability and strengthen executive capacity.⁵⁷ However, the capability of individual CHPs differs significantly across the sector, with providers of diverse organisational size, complexity, maturity and capacity.

As such, the Capacity Building Program was established as a pilot program to assist registered CHPs to develop their financial and management capability and undertake new developments. The grants available under the Capacity Building Program enable eligible CHPs to access tailored assistance from a panel of approved professional advisory service providers to help with applications for funding from either the AHBA or the NHIF.

A cap of \$1.5 million applies to the amount NHFIC can spend on capacity building activities. The operation of the program, however, is at the discretion of the Board. NHFIC has determined that grants of up to \$20,000 are available under the program, which is administered on behalf of NHFIC by the Community Housing Industry Association. To date, grants totalling around \$675,000 have been provided.

Consultations and submissions to the Review showed that stakeholders support the principle of the program. However, some stakeholders have expressed concerns over aspects of the Capacity Building Program. In some instances the application process was too onerous for the size of grant available, with a stakeholder indicating that the cost a CHP incurred in attempting a grant application exceeded the value of grant available. The maximum size of grant available was highlighted as a significant constraint to the program's success – multiple stakeholders suggested that \$20,000 was insufficient to meaningfully cover the cost of advisory services. This often necessitates CHPs providing additional funding to access advisory services, however the program currently provides no guarantee that these services would result in a successful application for NHFIC funding – stakeholders indicated this is a disincentive to CHPs accessing the grants.

The size of the available grant funding pool was considered too small to make a material difference to the financial and management capability of a sector with over 400 registered providers. Given the size of the CHP sector, the limited take-up of grants further indicates that the program is not being accessed in meaningful size. A number of stakeholders countered that the program will take some time to improve the sector's capability, given the relatively short time period it has been operating for.

However, the consistent feedback was that the size of the grants and the overall cap of \$1.5 million is too small to make a material difference to developing the financial and management capability of a sector with over 400 registered providers. It was remarked that, for a CHP seeking assistance with an application for NHFIC financing, a sum of \$20,000 for consultancy services was quickly exhausted. While the largest CHPs generally had the financial acumen and capacity to prepare applications for NHFIC funding without the assistance of the program, there was a greater need for the program amongst smaller providers. The Review also noted that there are some state-based capacity building programs.

Given state and territory governments' close working relationships with the CHP sector, they have a significant role to play in developing the capacity and expertise of the CHP sector. NHFIC's Capacity Building Program can also play an important role in assisting the sector and should be targeted towards developing CHP financial capabilities, given that is where NHFIC's expertise lies.

56 EY, *Establishment of an Australian affordable housing bond aggregator*, Treasury website, 2017, p 16.
https://treasury.gov.au/sites/default/files/2019-03/c2017_222774_EY_report-2.pdf

57 V Milligan, H Pawson, R Phillips and C Martin, *Developing the scale and capacity of Australia's affordable housing industry*, AHURI, 2017.

First Home Loan Deposit Scheme

Background

The Government announced the FHLDS in May 2019. To enable the FHLDS, amendments were made to the NHFIC Act and Investment Mandate in October and November 2019. The scheme commenced on 1 January 2020.

Under the scheme, the Commonwealth, through NHFIC, provides a guarantee to an eligible lender of up to 15 per cent of a property's value, allowing an eligible borrower to purchase a home with a deposit of as little as five per cent and without incurring the cost of lenders mortgage insurance (LMI). The FHLDS is subject to property price caps.

In announcing the FHLDS, the Government noted that saving a deposit had become a more significant barrier to entering the housing market.⁵⁸ According to ANZ and Corelogic, at the end of the June quarter 2019 it would take the typical household in a capital city around nine years to save a 20 per cent deposit, and even longer for households in Sydney and Melbourne.⁵⁹

In light of this challenge, the FHLDS was designed to allow first home buyers to access the housing market sooner.⁶⁰ The FHLDS was intended to complement other measures the Government had taken to reduce pressure on housing affordability in Australia – including the First Home Super Saver Scheme, which allows potential first home buyers to build a deposit for a first home via voluntary contributions to their superannuation fund.⁶¹

The New Home Guarantee and the Family Home Guarantee

In the 2020-21 Budget, the FHLDS was expanded to include the New Home Guarantee, which aims to expand the supply of housing and stimulate the residential dwelling construction sector. The New Home Guarantee operates in the same way as the FHLDS – it provides a guarantee to an eligible lender of up to 15 per cent of a property's value, allowing an eligible borrower to purchase a home with a deposit of as little as five per cent, subject to property price caps.

However, unlike the FHLDS, the New Home Guarantee is restricted to the building or purchase of a new home. Reflecting the higher cost of a new home, higher property price caps apply under the New Home Guarantee. The New Home Guarantee formed part of the Government's Economic Recovery Plan in response to the COVID-19 pandemic.

In the 2021-22 Budget, the Government introduced the Family Home Guarantee, which will provide up to 10,000 guarantees over four years to enable single parents with dependants to build or purchase a home. The Family Home Guarantee commenced on 1 July 2021 and is subject to the same property price caps as the FHLDS, however eligible applicants will be able to access the scheme with a deposit of as little as two per cent, regardless of whether they are a first home buyer or have previously owned property.

58 Treasurer, the Hon Josh Frydenberg MP, and Minister for Housing, the Hon Michael Sukkar MP, *Supporting first home buyers* [media release], Commonwealth Government, 15 October 2019, accessed 1 March 2021.

59 ANZ, *Housing Affordability Report: June Quarter 2019*, www.media.anz.com, November 2019, accessed 1 March 2021.

60 Explanatory Statement, *National Housing Finance and Investment Corporation Investment Mandate Amendment (First Home Loan Deposit Scheme) Direction 2019*, p 1.

61 Explanatory Statement, *National Housing Finance and Investment Corporation Investment Mandate Amendment (First Home Loan Deposit Scheme) Direction 2019*, p 2.

How the FHLDS works

Under the FHLDS, the Commonwealth, through NHFIC, provides a guarantee to a first home buyer's lender for an amount up to 15 per cent of the value of a property. In this way, a FHLDS guarantee allows a buyer to purchase a home with less than a 20 per cent deposit and without the need for incurring the additional cost of LMI or relying on a parental or other guarantee.⁶² In the event of default and where the lender exercises its rights under the loan agreement to sell the property, and only if there is a shortfall in the sale proceeds of the property, the guarantee applies and the shortfall becomes payable by NHFIC to the lender.⁶³

In the ordinary course of events, where the buyer adequately services the loan, the guarantee stays in place until the principal balance of the loan reduces to below 80 per cent of the value of the property at purchase. At this point, the guarantee is extinguished and the loan agreement between the buyer and the lender carries on without the guarantee.

A guarantee under the FHLDS is only available in relation to a buyer, lender and loan that meet criteria specified by the Minister in the Investment Mandate. Where the first home buyer is an individual, the buyer must have an annual income no greater than \$125,000. Where the first home buyers are a couple, the couple must have an income not exceeding \$200,000.⁶⁴

The applicable price cap depends on the location of the residential property and ranges from \$350,000 in regional South Australia to \$800,000 in the Sydney, Newcastle and Illawarra areas.⁶⁵ NHFIC is required to recommend to the Minister on an annual basis any adjustments it considers should be made to the price caps.

An eligible loan must also be made by an eligible lender. An eligible lender is a lender approved by NHFIC to participate in the FHLDS in a particular financial year. In approving a lender, NHFIC must have regard to a range of criteria, including the lender's reputation, the quality of its origination processes and the competitiveness of their loan products.

At the commencement of the FHLDS, NHFIC was authorised to issue up to 10,000 guarantees in a financial year. Amendments made to the Investment Mandate in October 2020 enable the Minister to determine that any unissued guarantees may be rolled over to the following financial year.⁶⁶ In relation to the 1,848 guarantees from 2019-20 that expired or lapsed, in February 2021 the Minister has determined that the guarantees may be issued in 2020-21.

There is no limit on the total number of lenders that may be approved, however no more than two of the major banks can be an eligible lender at any time.⁶⁷ Prior to the commencement of the FHLDS,

62 Under a guarantee, a guarantor (typically a parent or other family member) with sufficient equity in their home can use it as a security guarantee for the first home buyer's loan. This allows the buyer to obtain a loan without needing to save the full 20 per cent deposit and without needing LMI. If the buyer defaults on their loan and the lender exercises its right to sell the buyer's property, and if after that sale there is a shortfall in the outstanding loan amount, the lender has the right to seek the limited guarantee amount from the guarantor. This could involve the lender exercising a right of sale over the guarantor's home.

63 For example, assume an eligible first home buyer purchases a home worth \$500,000 with a 10 per cent deposit (\$50,000). The original guaranteed amount is \$50,000 (representing 20 per cent of the initial value (\$100,000) less the initial deposit paid). Assume, following a default, the lender exercises its power of sale and the net sale proceeds reduce the amount owing to the lender to \$30,000. The amount claimable under the guarantee and payable by the NHFIC is \$30,000. See section 29H of the Investment Mandate.

64 Investment Mandate, section 29E.

65 On 19 June 2021, the Minister announced new property price caps would apply to the First Home Loan Deposit Scheme and Family Home Guarantee. Minister for Housing, the Hon Michael Sukkar MP, *More support for first home buyers and single parents with children* [media release], Commonwealth Government, 19 June 2021.

66 Investment Mandate, section 29I.

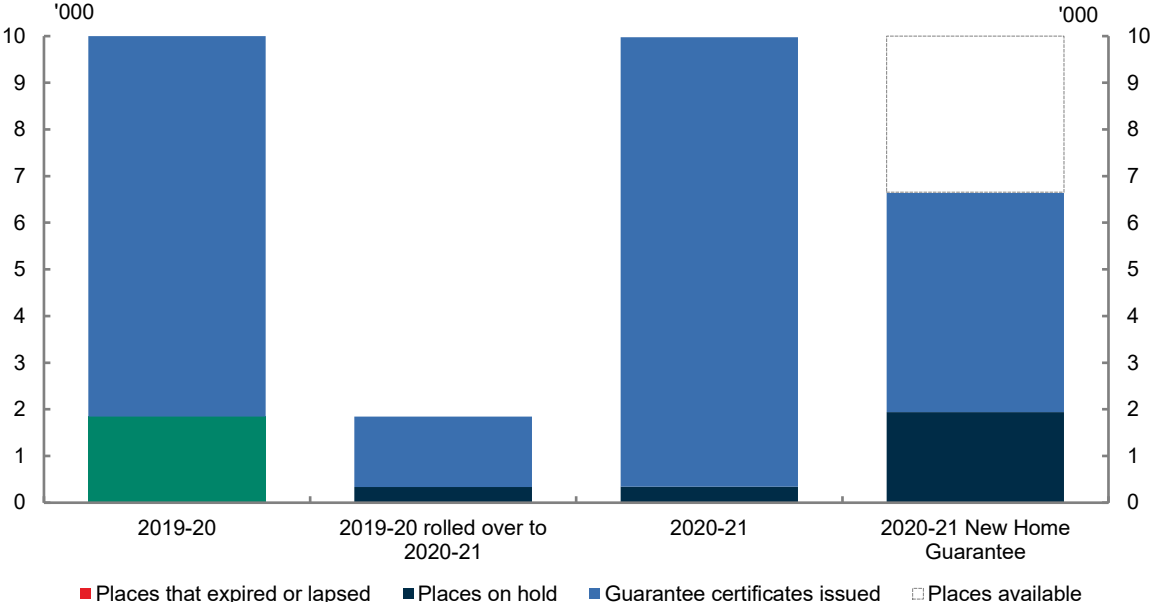
67 Investment Mandate section 29B.

NHFIC administered a procurement process to inform its decision to appoint approved lenders for the scheme. A total of 27 eligible lenders have been approved by NHFIC, including the National Australia Bank and the Commonwealth Bank of Australia as the two major bank lenders. To support competition in the lending market, the Investment Mandate requires that no more than 5,000 guarantees can be issued by NHFIC to the two major bank lenders on the panel in any one financial year.

Has the FHLDS achieved its objectives?

Demand for FHLDS guarantee places, including New Home Guarantee places, has been significant. Across the over two years of operation and including the New Home Guarantee, a total of 30,000 scheme places have been approved for issue to eligible lenders, resulting in more than 24,000 settled purchases as at 28 June 2021. According to NHFIC’s research, between March and June 2020 the FHLDS supported one in eight first home buyers who purchased a home in Australia.⁶⁸ **Figure 12** shows the status of guarantees issued under the FHLDS since its commencement.

Figure 12: Uptake of the FHLDS since commencement (as at 28 June 2021)



Guarantee certificates are issued to a lender after a buyer signs a contract of sale and receives unconditional finance approval. Places on hold are where the buyer has secured a guarantee place with a lender or has received finance pre-approval, but is yet to purchase a property.

The take-up of the scheme to date, particularly in the first full year of its operation, shows strong demand from first home buyers. Within four months of the scheme’s commencement on 1 January 2020, over 8,000 guarantee places resulted in settled purchases or were reserved by first home buyers with pre-approved finance. The uptake of places in 2020-21 was even quicker, with around 9,600 of the 10,000 guarantee places settled or reserved within four months of being made available. The speed with which each year’s allocation has been exhausted suggests there is significant unmet demand for places in the scheme (although demand of the New Home Guarantee has been less strong).

68 NHFIC, *First Home Loan Deposit Scheme: Trends and Insights*, August 2020, www.nhfic.gov.au/media-resources/media-releases/, accessed 1 March 2020.

Facilitating earlier and additional access

When considering the impact of the FHLDS, it is useful to note that there are three broad categories of first home buyer who appear to benefit from the scheme: accelerated buyers; genuinely additional buyers; and capable buyers (see **Box 2**).

Box 2: Simplified buyer types who benefit from the FHLDS

- **Accelerated buyers**

These are buyers who would have otherwise entered the property market in the short to medium term. They do not have the standard 20 per cent deposit but would have been able to access finance by utilising LMI, or perhaps a parental guarantee. For these buyers, the FHLDS provides earlier access to the property market.

- **Genuinely additional buyers**

These are buyers who previously thought the property market was out of reach and who would otherwise have been long term renters. They do not have the standard 20 per cent deposit required to avoid paying LMI and cannot afford to pay LMI. In relation to these buyers, the FHLDS represents ‘additionality’ and provides access to the property market where it would not otherwise have been possible, at least not in the foreseeable future.

- **Capable buyers**

These are buyers who would have entered the property market in the short term, with or without the need for LMI. They have the standard 20 per cent deposit but choose to use the FHLDS to borrow more (for a more expensive home), or to save less. For these buyers, the FHLDS has little effect on the timing of their access to the property market but provides something of a windfall gain.

The central policy intent of the FHLDS, as stated under the Object of the NHFIC Act and in the Investment Mandate, is to facilitate earlier access to the housing market by first home buyers. In introducing the scheme, the Government noted that the objective of the FHLDS is to facilitate this earlier access for first home buyers while maintaining the viability of the LMI market.

Evidence presented to the Review indicates that the FHLDS appears to be achieving this objective for that cohort of first home buyers that are able to secure a FHLDS guarantee. NHFIC’s research suggests that if buyers under the FHLDS did not have alternative financial means and had to save the entire 20 per cent deposit, they would have had to delay their first home purchase by an average of four years. In NSW, NHFIC estimated the delay would have been an average of almost five years.

In a submission to the Review, one major LMI provider found that the FHLDS appears to allow borrowers to purchase a property approximately one to two years earlier than they otherwise would have. Their analysis found that likely in excess of 75 per cent of FHLDS participants would have been eligible to borrow for a property without the support of the scheme within 12 to 30 months of their FHLDS-assisted purchase. This suggests that the majority of beneficiaries of the FHLDS are ‘accelerated buyers’ – those who would have been able to purchase a property, either with the support of LMI or with a full 20 per cent deposit, in one to two years and is consistent with the widespread view heard by the Review that the impact of the FHLDS is mostly to bring forward demand that would have otherwise occurred in the short to medium term.

Due to the limited number of FHLDS places, there are prospective buyers who miss out on the benefit of the FHLDS altogether. Some of these prospective buyers may choose to proceed with a purchase with the support of LMI. In this case, the buyer’s purchase is not delayed but is more expensive than it would be if the buyer was able to secure one of the 10,000 places. Other

prospective buyers may not be able to afford LMI or secure finance without a FHLDS guarantee. For these prospective buyers, their purchase is delayed until they are able to secure a FHLDS place.

Additionally, section 57A of the Act requires a review to be undertaken of NHFIC's activities assisting additional first home buyers to enter the housing market. Although not the central policy intent of the FHLDS, evidence suggests that the scheme is also assisting a proportion of first home buyers that wouldn't otherwise have been able to enter the property market – 'genuinely additional buyers'. The previously referenced analysis by a major LMI provider found that approximately 12 per cent of FHLDS participants to date would have income levels lower than those which would be generally acceptable for non-scheme loans.

Impact on prices

While there is no direct cash payment involved, the FHLDS effectively operates to put more cash in the hands of qualified prospective buyers than they otherwise would have, akin to the more widely used first home buyer grants. By way of example, for a first home buyer purchasing a \$500,000 home with a \$25,000 deposit (five per cent), the typical LMI premium would be around \$14,800.⁶⁹ If the need to obtain LMI is removed, this \$14,800 can theoretically be added to the buyer's spending capacity, meaning that their budget for a home might be increased by \$14,800.

The Review has not been able to determine if the scheme has had any significant price impact and notes that the scheme is small in size in the context of the overall housing market. However, it is generally accepted that policies that effectively result in more cash in the hands of buyers have the effect of pushing up house prices. Economists who spoke with the Review noted that standard economic theory suggests that assistance to first home buyers that simply brings forward or adds to demand without a corresponding increase in supply is likely to result in an increase in house prices which largely cancels out any positive benefit to first home buyers (with most of the benefits ultimately accruing to vendors – those who already own property or to developers and builders of property). Housing prices, however, may not adjust as rapidly as some other asset prices and so the earlier cohorts of first home buyers that are supported by such schemes may be made better off, whereas those that purchase later on may not derive much benefit at all.

In 2008, the Senate Select Committee on Housing Affordability in Australia considered the First Home Owner Grant and reported a number of criticisms of the grant on the basis of it driving up house prices.⁷⁰ Some of these criticisms are provided in the box below, as well as other evidence of the impact of first home buyer grants on housing affordability.

69 See for example stamp duty calculators at www.westpac.com.au and www.genworth.com.au.

70 Senate Committee on Housing Affordability in Australia, *A Good House is Hard to Find: Housing: Affordability in Australia*, 2008, www.aph.gov.au/Parliamentary_Business/Committees/Senate/Former_Committees, accessed 1 March 2021.

The First Home Owner Grant was introduced in July 2000. Initially, the Grant paid \$14,000 to first home purchasers of new dwellings and \$7000 for the purchase of existing dwellings. Later, the scheme offered \$7,000 for all first home purchasers. Responsibility for its \$1 billion cost has been transferred from the Commonwealth to the states and territories.

Box 3: Evidence of the impact of first home buyer grants on housing affordability

In 2008, the Senate Select Committee on Housing Affordability in Australia considered the First Home Owner Grant and reported a number of criticisms of the grant on the basis of it driving up house prices.

The Productivity Commission submitted to the Committee that measures that increase purchasing power will tend to increase house prices, particularly if there is limited capacity to augment supply in response to the ensuing increase in demand. The Productivity Commission argued that the effect of this would be to benefit existing home owners at the expense of those seeking to purchase, including first home buyers – though recipients of assistance will still be better off overall.

Similarly, the Reserve Bank of Australia submitted to the Committee that it is widely accepted that policies that simply give people more money to spend on housing are likely to be capitalised into higher housing prices.

Ultimately the Committee recommended that the grant should be modified so that it provided a larger grant to those buying new dwellings and a smaller grant to those buying existing dwellings. This was intended to grow the incentive to increase the supply of houses rather than just increasing the demand for them.

In its submission to the inquiry conducted by the Senate Standing Committee on Economics regarding the National Housing Finance and Investment Corporation Amendment Bill 2019 (which established the FHLDS), the Grattan Institute addressed the issues of whether these schemes have the effect of pushing up house prices, and specifically whether the FHLDS would have that effect. Grattan submitted that ‘giveaways’ to first home buyers have actually worsened housing affordability by further inflating demand for housing and that, while first home buyer grants may help some individuals to outbid an investor and buy a house, they do little to make houses affordable at an aggregate level.

Given the above, some of these schemes have been redirected towards supporting the construction of new, or newly built, dwellings. The Government’s New Home Guarantee is the latest example of this trend. The arguments advanced in favour of favouring new dwellings is that it supports the residential construction sector, encourages the development of new supply and, in so doing, mitigates the upward pressure on prices that is a consequence of these schemes.

The Review notes that directing the scheme towards new dwellings, or the purchase of newly constructed dwellings, likely mitigates some but not all of the associated price impacts. While it may encourage some supply response, directing the scheme to new builds will tend to put upward pressure on the price of: land (which is generally fixed in the short term); newly constructed properties; and, off the plan builds. In that way, at least part of the benefit ultimately accrues to landowners and developers.

Design considerations and risks

The FHLDS is a demand-driven scheme that is capped at 10,000 guarantees per year. Demand for the scheme has been strong and, from the experience to date, clearly has outstripped the number of available guarantees.

The NHFIC Act and Investment Mandate are silent on how guarantees are allocated to prospective first home buyers, requiring only that there is an equal distribution between major and non-major lenders. The Review supports maintaining the current legislative requirement for FHLDS places to be allocated equally between major and non-major lenders. This effectively allows lenders, and their supporting broker networks, to operate the FHLDS on a ‘first come, first served’ basis, subject to

those buyers meeting the FHLDS eligibility criteria and the lender's serviceability assessment. Once the total number of guarantee places available to be issued in a financial year is exhausted, the stock is not replenished until the beginning of the following year.

Given the demand for the scheme significantly outstrips the number of available places each year, activity associated with the scheme is likely to be concentrated within the first few months of each financial year. As such, there is a risk that the impact of the scheme on first home buyer behaviour and house prices is concentrated in a short period of time.⁷¹ The Review has not seen evidence of this price impact occurring so far. A further risk is that those that miss out on the scheme in a given year delay their entry to the market until the following year's allocation is made available, creating an uneven profile of first home buyer activity over the year.

Administration of the FHLDS is largely outsourced by NHFIC to the scheme's panel lenders. It is the lenders that assess an applicant's eligibility against the Investment Mandate and allocate guarantee places – either through loans originated by the lender or by its broker network. NHFIC operates little centralised control of the allocations, nor does the NHFIC Act or Investment Mandate require NHFIC to marshal the queue of first home buyers seeking a FHLDS guarantee.

The absence of an express requirement under the NHFIC Act or Investment Mandate for NHFIC to control the distribution of FHLDS guarantee places creates a risk that the FHLDS could be distributed inequitably, which would undermine the intention of the criteria specified in the Investment Mandate. This could occur where:

- a disproportionate share of available FHLDS guarantees is taken up by buyers in some parts of Australia, to the detriment of buyers in other parts of Australia;
- panel lenders preference FHLDS guarantee places for more commercially attractive customers – for example, buyers with an income at the top end of the income cap, or buyers whose loan to value ratio (LVR) would be closer to 80 per cent than 95 per cent;
- panel lenders preference FHLDS guarantee places for properties that the bank regards as more desirable or a safer investment – for example, detached properties rather than apartments, or properties in established areas rather than greenfield developments.

In relation to the risks of panel lenders preferring more commercially attractive buyers and properties, the risk arises because the FHLDS only provides lenders with 'top cover' of up to 15 per cent of the value of the property at purchase whereas LMI typically insures the full loan amount. This creates a hypothetical 'adverse selection' risk for LMI providers, where lenders are incentivised to direct less creditworthy, higher risk borrowers to LMI while retaining for the FHLDS buyers that are considered more commercially attractive. Were this to occur on a significant scale, it could result in a material increase in the financial risks borne by private LMI providers.

The risks presented above are hypothetical and there is no evidence to date that these risks have materialised. NHFIC's *First Home Loan Deposit Scheme: Trends and Insights* report provides substantial profile data about FHLDS customers that indicates a generally equitable distribution along geography and housing type, and with median incomes significantly below the imposed caps. Evidence heard during the Review from LMI providers also suggests that their earlier fears of adverse selection from the operation of the FHLDS has not been borne out to date. The Review has not recommended any changes to the operation of the scheme to mitigate these risks.

71 Panel lenders require that buyers who are allocated a reserved guarantee purchase their home within 90 days of the allocation. This timeframe, particularly in a competitive housing market, requires buyers to have a thorough understanding of the market and the type of property they can afford and wish to purchase.

Lenders mortgage insurance

For a prospective first home buyer who is not eligible for the FHLDS, or who is eligible for the FHLDS but misses out on a guarantee because demand exceeds the supply of available guarantees, market solutions are needed to deal with the challenge of saving a 20 per cent deposit. LMI has traditionally provided this solution. The importance of the LMI sector for first home buyers was acknowledged by the Government when the FHLDS was introduced. The Government stated that “while LMI requirements increase the cost of borrowing faced by many [first home buyers], it remains a viable and economically important market solution to facilitate high-LVR lending.”⁷²

Regarding the impact that the FHLDS has had on the LMI industry, the Review was told that the impact was not yet able to be assessed in any definitive way. Stakeholders commented that it was too early to assess the true impact on the LMI industry particularly given the unprecedented and exceptional economic circumstances brought about by the COVID-19 pandemic and that the dynamics of the housing market in 2020 have been extraordinary. Some LMI stakeholders expressed to the Review a concern regarding the prospect of the FHLDS being expanded beyond 10,000 places (or 20,000 in both 2020-21 and 2021-22 including the New Home Guarantee), even though they agreed that not all first home buyers who access the FHLDS (or the New Home Guarantee) would otherwise use LMI.

Box 4: Lenders mortgage insurance explained

A common way for a first home buyer to purchase a home with less than a 20 per cent deposit is to obtain lenders mortgage insurance (LMI). LMI protects a lender from losses in the event of a borrower defaulting on a home loan. Lenders typically require a borrower to purchase LMI for high-LVR loans, as these loans have a higher risk of default and have a smaller deposit (less equity).

LMI providers charge an upfront premium to borrowers, which is often capitalised into the home loan. The size of the premium depends largely on the LVR of the home loan. For a first home buyer purchasing a \$500,000 property with a \$25,000 deposit (5 per cent), the LMI premium would generally be around \$15,000. LMI is widely utilised by first home buyers.

The LMI payment doesn't contribute towards repaying the loan – it is the insurance premium paid by the borrower to protect the lender. However it benefits the borrower in the sense that it allows them to borrow sooner, and therefore make their purchase sooner. In this way, it provides the same benefit to a buyer as the FHLDS. From the perspective of an eligible first home buyer, the FHLDS is effectively a free alternative to LMI. In this way, the FHLDS represents a reduction in the LMI industry's traditional customer base, even though the FHLDS and LMI are not identical from a lender's perspective.

While the LMI sector appears to have absorbed the entrance of what is essentially a public competitor reasonably well to date, it was put to the Review that expansion of the FHLDS could, at some point, threaten the viability of the LMI sector. It was argued that failure in the private LMI market would adversely impact home ownership to a much greater extent than any positive impact of an expanded scheme.

The LMI sector supports a far greater number of first home buyers than the 10,000 that are supported by the FHLDS each year. The LMI sector is also able to support first home buyers who do not meet the eligibility criteria for the FHLDS, as well as supporting non-first home buyers with limited deposits. The Government has made it a key objective that the FHLDS does not undermine the viability of the LMI sector, and the Review endorses the importance of this objective. Any

72 Explanatory Memorandum to the National Housing Finance and Investment Corporation Amendment Bill 2019, p 16.

consideration given to expanding the FHLDS should not occur without consideration of the ramifications for the LMI sector.

Market responses

The cohort of first home buyers is larger than the number of guarantees available under the FHLDS. Given this, it would be a positive policy outcome for the existence of the FHLDS to trigger competition and innovation amongst lenders and LMI providers in a way that benefits first home buyers who don't have the benefit of a FHLDS guarantee. There is some, albeit limited, evidence of such competition and innovation occurring in the market but whether this can be attributed to the existence of the FHLDS is unclear.

In July 2020, a bank that is not a panel lender under the FHLDS, began offering a \$1 LMI product for first home buyers. The loan must be valued no greater than \$850,000 and with an LVR of no more than 85 per cent.⁷³ Compared to the FHLDS, the requirement for a minimum 15 per cent deposit means that the benefit is provided only to lower-risk loans. The much larger loan size as compared to what is generally possible under the FHLDS also indicates that the product is not targeting buyers who would otherwise struggle to enter the housing market, or to enter the market without significant delay. Whether this product represents a true benefit to first home buyers is not clear. However, product innovation itself as a form of competition is to be encouraged as a potential means of assisting first home buyers to enter the market.

A major LMI provider has also recently introduced a LMI product with a monthly premium payment. This distinguishes it from other LMI products that are paid upfront and usually added to the loan amount. The Productivity Commission, in its 2018 report *Competition in the Australian Financial System*, was critical of the absence of a monthly or periodic premium option for home buyers and noted that, at the time, Australia's system was unique in its requirement for an upfront levy. The Productivity Commission described that a monthly option would be taken up by borrowers who, despite not having a sufficient deposit to avoid the need for LMI, envisage that they are likely to be able to pay off their loan relatively quickly, thus paying LMI for a shorter period of time. It was felt that periodic payments would also increase transparency around the cost of LMI and remove a barrier that discourages borrowers from shopping around for a better deal on their existing home loan.⁷⁴

Whether the monthly premium LMI product is a response to the FHLDS or a response to the Productivity Commission, or both, is unclear. However, its entry into the Australian LMI market is welcome as it has a strong potential to provide an improved LMI product for first home buyers who miss out on a FHLDS place or are otherwise ineligible.

Final observations on the effectiveness of the FHLDS

With more than 19,000 property settlements under the FHLDS between January 2020 and June 2021, it's clear that the FHLDS is in high demand and popular amongst first home buyers. Given the scheme provides a significant cost saving for first home buyers, the strength of demand for places is unsurprising.

A more complex challenge is to determine whether the FHLDS has facilitated earlier access to the housing market for first home buyers as intended, and whether it has also allowed additional first home buyers into home ownership. Currently, some analysis indicates that the FHLDS has been effective at helping earlier access to home ownership for buyers who, one or two years later, would probably have been able to purchase a home using LMI or with continued saving. As expected, the

73 The product is not available in relation to construction loans. The product is only available in relation to a particular loan product offered by the bank, which attracts an annual fee.

74 Productivity Commission, *Competition in the Australian Financial System*, Productivity Commission Inquiry Report No. 89, <https://www.pc.gov.au/inquiries>, 29 June 2018, accessed 26 February 2021.

FHLDS appears to have supported relatively few people who would otherwise not have been able to purchase a home.

The majority of first home buyers do not obtain a benefit from the FHLDS. This is either because they are not eligible or because all available guarantee allocations have been exhausted. For these prospective buyers, the FHLDS provides no benefit and there remains a pressing need for assistance in overcoming the challenge of reaching a 20 per cent deposit. Indeed, because the FHLDS mostly appears to bring forward demand from when it would otherwise appear in the market, the FHLDS likely makes purchasing a home more difficult for first home buyers who don't have the benefit of the FHLDS. These first home buyers have to compete for the same stock of suitable first homes with FHLDS-supported buyers who effectively have more cash in their hands with which to bid for (and bid up the price of) properties.

For first home buyers who don't obtain a FHLDS guarantee, LMI remains the primary means by which to enter home ownership. On an annual basis many more first home buyers are assisted by LMI than by the FHLDS. First home buyers generally would be assisted by the sustained viability of the LMI sector and by further innovation in the sector to make LMI products cheaper and more attractive for first home buyers.

It should be stressed, however, that better data is needed to evaluate the effectiveness of the FHLDS. This is expanded on in **Chapter 3**.

Research function

Amendments to the NHFIC Act in 2019 which established the FHLDS also added research into housing affordability in Australia to NHFIC's functions. Further direction was given to NHFIC via associated amendments to the Investment Mandate. NHFIC was directed to conduct comprehensive research into housing demand, supply and affordability, including current and potential future gaps between housing supply and demand, while complementing existing research.

Under the Investment Mandate, NHFIC may undertake research on its own initiative or as requested by the Minister. It is to publish results of its research and liaise with relevant stakeholders, including state and territory bodies, Federal and state government agencies, research institutions, market participants and the housing sector.

The establishment of NHFIC's research function followed calls for a Commonwealth agency dedicated to housing research, after the abolition of the National Housing Supply Council (NHSC) in 2013. Between 2013 and 2019, peak bodies and construction sector representatives argued that the lack of a Commonwealth agency dedicated to housing research prevented analysis of national housing supply and demand, hampering efforts by policymakers to address deteriorating housing affordability and plan for the housing needs of the future.

On 12 September 2019 the Minister for Housing and Assistant Treasurer, the Hon Michael Sukkar MP, presented the NHFIC Amendment Bill 2019 to Parliament which included provisions for the research function. The Minister outlined that the new research function would examine housing demand, supply and affordability in Australia and "establish close relationships with other research organisations to ensure its research efforts on housing affordability are focused where they are most needed and that they complement existing housing related research".

Following the passage of the NHFIC Amendment Bill 2019, NHFIC formally commenced the research function in January 2020. NHFIC research is produced by a small in-house team under direction and with support of the Research Sub-Committee of the NHFIC Board.

Housing research in Australia

NHFIC's research function operates in a crowded but fragmented field for housing research in Australia. A wide range of Commonwealth and Commonwealth-funded entities research and report on the state of the housing market in Australia.

Figure 13: Agencies undertaking housing research in Australia



- The **Productivity Commission** has undertaken bespoke housing-related research projects on themes such as vulnerable renters and social housing, and reports annually on housing and homelessness indicators through its Report on Government Services (RoGS).
- The **Reserve Bank of Australia** produces housing research, considering the macroeconomic and financial stability impacts of developments in the housing market.
- The **Parliamentary Library** has produced a number of parliamentary reports on themes including housing affordability in Australia and the role of affordable housing.
- The **Australian Housing and Urban Research Institute (AHURI)** is the most prominent and active research institution in Australia in the social and affordable housing space. Commonwealth, state and territory governments co-fund AHURI's National Housing Research Program (NHRP) through which academics bid to a panel for funding to undertake housing research projects that align with the NHRP research agenda. AHURI has published over 700 research reports since 2000 under the NHRP.

While the Review considers that AHURI's research output is thorough and contributes positively to the policy discourse around social and affordable housing, a relatively common critique heard during consultations was that its publications generally speak to an academic audience, and AHURI therefore lacks the ability to 'cut through' and directly influence policy outcomes. An argument advanced by several stakeholders was that NHFIC's research function should aim to fill that AHURI gap.

- The **Australian Bureau of Statistics (ABS)** collects and publishes data on activity in the housing market and dwelling prices. Other ABS data sets, including population and migration, inform analysis of housing demand.
- The **Australian Institute of Health and Welfare (AIHW)** produces annual reports on housing assistance in Australia. AIHW operates a Housing Data Dashboard which brings together 25 national data sets on a visual analytical tool that can be customised by the user.
- The **Australian Urban Research and Infrastructure Network (AURIN)** is an analytical tool that aggregates Commonwealth, state, territory, and private sector data sets into a ‘one stop shop’ and provides analytical tools to plot and compare data points spatially.
- The **Department of Social Services** collects and publishes data on recipients of Commonwealth Rent Assistance.
- The **Australian Prudential Regulation Authority** collects and publishes data on residential mortgage lending, including the exposures of authorised deposit-taking institutions to residential mortgage lending. They also collect data – via a recurrent mortgage data pilot – aimed at identifying trends and systemic practices in mortgage lending.
- The **Australian Securities and Investments Commission** periodically publishes reports on aspects of the housing market including, for instance, the role of mortgage brokers.
- **CSIRO** operates the Australian Housing Data portal which displays data about the energy efficiency of housing types and reports on dominant housing types in each state.

Research and data on the housing market is undertaken by a range of other entities, including state and territory governments, the private sector – including peak bodies, non-for-profits and community housing providers – and academic institutions.

Given the number of entities publishing research on housing affordability, the effectiveness of NHFIC’s research function will partly depend on the extent to which it satisfies an unmet demand for data and research insights.

Box 5: NHFIC research function: publications to date

Building Jobs: How Residential Construction Drives the Economy (June 2020)

- Measured the impact of the residential construction sector on the economy.

COVID-19: Australia's Population and Housing Demand (September 2020)

- Evaluated population changes resulting from COVID-19 and subsequent impacts on housing demand.

Australia's Social and Affordable Housing Sector: A Resilient Response to COVID-19 (October 2020)

- Reported on the response of community housing providers to the health and economic impacts of COVID-19.

State of the Nation's Housing 2020 (December 2020)

- An annual report that analyses the state of housing supply and demand in Australia and flow-on effects to housing affordability.

Housing inSITES: Capital city housing affordability for renters and potential first home buyers (April 2021)

- This builds on the research presented in the State of the Nation's Housing 2020 report.

Delivering More Affordable Housing: An Innovative Solution (May 2021)

- Presents financial modelling to demonstrate the mix of public and private contributions that can be used to facilitate community housing development projects.

Stamp Duty Reform: Benefits and Challenges (July 2021)

- Discusses the economic benefits and challenges of replacing transfer duties with broad-based land taxes.

Effectiveness of NHFIC research

NHFIC produced four reports in the first year of its research function⁷⁵ – see **Box 5**. Of note, NHFIC released its inaugural *State of the Nation* report in 2020 which provides a macro analysis of the (im)balance of housing supply and demand, taking into account the impacts of COVID-19. *State of the Nation* discusses affordability implications for owners and renters, with a specific focus on low-income renters in the private market and those in social housing. The report was received favourably by stakeholders, particularly for providing a national analysis of housing supply and demand that has been absent since the abolition of the NHSC.

The remaining three reports produced in 2020 only indirectly addressed housing affordability and investigated other themes including the economic effects of the residential construction sector (*Building Jobs*), changes in housing demand as a result of COVID-19 (*Population and Housing Demand*) and the response of the CHP sector to COVID-19 (*Australia's Social and Affordable Housing Sector*).

Under the research function, NHFIC has also been involved in developing the housing data ecosystem, most notably by contributing to the nascent Australian Housing Data Analytics Platform.

⁷⁵ In August 2020 NHFIC produced a report titled *First Home Loan Deposit Scheme - Trends and Insights*. This report is not considered a research report under NHFIC's research function, as it responds to the legislative requirement to report to the Minister on the take-up and cost of the FHLDS under section 29L of the Investment Mandate.

NHFIC is involved alongside a consortium including AIHW, AURIN and the ABS, together with eight universities to build the platform which will generate national housing datasets to “facilitate research into areas such as housing supply, affordability and diversity, supporting policy decisions that are fair, data-driven, and accurate”.⁷⁶ Priority data sets will include population, property, culture, housing finance and housing economy.

Stakeholders to the Review considered the effectiveness of NHFIC research in several ways. Some remarked that as a Commonwealth entity, research produced by NHFIC makes an authoritative contribution to the knowledge base about housing in Australia. Others remarked that NHFIC – given its other functions – may not be the most appropriate entity to undertake housing research, particularly in the context of the crowded field of entities producing housing research. Some stakeholders thought that NHFIC should strengthen its capabilities for communicating the policy relevance of its research to a wider audience. The most common critique recommended amendments to NHFIC’s research mandate to address existing shortcomings in research and data.

The Investment Mandate explicitly requires NHFIC to direct its research efforts in a way that “complement(s) existing housing-related research”, suggesting tacit acknowledgement that NHFIC has been given a research function that sits within what is already a relatively crowded field. During the Review, stakeholders stated that across the gamut of topics that fall under the housing research umbrella, housing affordability is the most actively researched. The Review also observed that three of the four research publications produced by NHFIC during the first year of its research function bore only an indirect relationship to housing affordability, which suggests that NHFIC may be struggling to identify its niche contribution to this research field.

Australia has a housing challenge and there is no doubting the need for robust, evidence-based research to support policy development in this area. NHFIC’s most valuable contribution to date has been a national analysis of housing supply and demand that has been absent since the abolition of the NHSC. However, the Review has not seen a plan with a coherent focus for NHFIC’s future research outputs, beyond an annual *State of the Nation* report. The Review generally finds that NHFIC has been given a research mandate that is too broad, and which does not feature nor leverage the agency’s core competencies in areas where it is an acknowledged leader. This is discussed further in **Chapter 3**.

Governance and financial arrangements

The NHFIC Board

The structure, functions and responsibilities of the NHFIC Board are set out in Part 3 of the NHFIC Act. The Board must include a Chair and a minimum of four and maximum of six Board members, all of whom are appointed by the Minister for a maximum term of five years. Under section 18 of the NHFIC Act, the Minister must ensure that Board members collectively have the appropriate balance of qualifications, skills and experience. These include skills in banking and finance, law, housing (including social and affordable housing), infrastructure planning and financing, local government, public policy and any requirements set out in the legislative rules.⁷⁷

The Board is responsible for the operation of NHFIC and reports to the Parliament through the Minister. Guided by the terms of the Investment Mandate, the Board determines strategies and policies to be followed by NHFIC, monitors compliance with those strategies and policies, defines

76 UNSW City Futures Research Centre, *The Australian Housing Data Analytics Platform*, UNSW website, n.d., accessed 15 March 2021.

77 At the time of writing there are no requirements set out in legislative rules for NHFIC.

NHFIC's risk appetite, makes financial decisions and otherwise ensures the proper, efficient and effective performance of NHFIC's functions.

The responsibilities and operation of the Board are set out in the NHFIC Board Charter, which covers strategy, risk management and governance, financial management and reporting, corporate governance and social responsibility, subordinate committees, or any other function prescribed by law.⁷⁸ The Board is supported by four management committees: the Audit and Risk Committee; the Bond Issues Due Diligence Management Committee; the Remuneration Committee, and the Research Board Reference Committee. In addition, NHFIC has also established a Credit Committee as an advisory committee to the Board, to assist with the oversight and management of credit risks arising from NHFIC's provision of finance to eligible CHPs.

Section 27 of the NHFIC Act enables the Minister to appoint an observer to the Board. The observer must be a Commonwealth official. The Minister can appoint the observer for a specified period of not more than six months, although the observer may be reappointed. The observer may attend any meeting of the Board and take part in the proceedings but cannot vote, and may also report to the Minister on any matter relating to the operation of NHFIC or the Board. The observer is also entitled to access information held by NHFIC for the purposes of taking part in Board proceedings or reporting to the Minister.

The Explanatory Memorandum to the NHFIC Act observed that the 2003 Uhrig review of Corporate Governance of Statutory Authorities and Office holders noted concerns with departmental appointments to Boards, as they may create conflicts of interests and compromise governance arrangements. The provisions in the NHFIC Act were intended to strike a balance between providing appropriate Government visibility of NHFIC at critical times, while minimising the disruption to normal Board governance and independence.

In October 2020, the Assistant Treasurer and Minister for Housing appointed an observer to the NHFIC Board for a period of six months. This has since been extended for a further six months. The Review notes that the observer was appointed following a significant expansion to NHFIC's functions, and it is important that the Government have greater visibility over NHFIC's operations at such times. Consistent with the Uhrig review, this should not be an ongoing role and it will be desirable to return to a standard governance model at the earliest opportunity.

NHFIC's governance frameworks

Section 7 of the NHFIC Act defines NHFIC as a corporate Commonwealth entity (CCE) under the *Public Governance, Performance and Accountability Act 2013* (PGPA Act), and therefore NHFIC is subject to the PGPA requirements in relation to corporate governance, reporting and accountability.

In addition, NHFIC must meet its obligations under the broad suite of Commonwealth financial framework requirements, including the Public Governance, Performance and Accountability (Financial Reporting) Rule 2015 and Commonwealth procurement rules; the Australian Accounting Standards; the Budget framework including the *Charter of Budget Honesty Act 1998*, the Budget Process Operating Rules (BPORs) and the ICT investment framework; and any other entity specific legislation.

Outside of the requirements for Commonwealth entities, NHFIC's governance is also guided by a range of other non-legislative frameworks that provide benchmarks for best-practice corporate governance in Australia, including the ASX Corporate Governance Principles and Recommendations (4th Edition). While the principles and recommendations are specifically directed at, and only intended to apply to, ASX-listed entities, they reflect best-practice corporate governance standards that can inform governance rules and practices for a range of entities, including CCEs. Consistency

78 NHFIC, 'NHFIC Board Charter', NHFIC website, 2020. <https://www.nhfc.gov.au/media/1521/board-charter-web-version-august-2020.pdf>

with best practice commercial governance is relevant for CCEs such as NHFIC, which are mandated – at least in part – to operate with commercial discipline (section 10 of the Investment Mandate) and to encourage greater private investment in particular markets or sectors.

There have been two reviews of NHFIC’s operations and governance frameworks since it was established. The first review was an independent internal ‘Diagnostic Review’ undertaken in mid-2019 at NHFIC’s instigation into its internal governance and control framework. At the time of the review, NHFIC was responsible for administering the AHBA, NHIF and capacity building functions. The Diagnostic Review found that NHFIC was “well placed with sound policies and procedures in place to support the compliant operation of the organisation”. The review also made a number of recommendations to improve governance, including the need to institutionalise and develop a management and monitoring framework for NHFIC’s Services Agreement with EFA.

The second review was a performance audit conducted by the Australian National Audit Office (ANAO) in 2020 and released in January 2021 (see **Box 6** for a summary of the ANAO’s recommendations). The ANAO’s analysis of NHFIC’s establishment of programs found that NHFIC exceeded expectations in relation to the AHBA, met expectations for FHLDS and research, and had fallen short of expectations for the NHIF and Capacity Building Program.

Overall, the ANAO found that the administration of NHFIC was ‘partly effective’. It noted that:

The establishment of NHFIC was largely consistent with relevant legislative and policy requirements. There were shortcomings primarily related to its arrangements to monitor and report on performance under its Services Agreement with EFA and its implementation of risk management.⁷⁹

Box 6: ANAO performance audit recommendations

- 1.** The National Housing Finance and Investment Corporation implement rigorous monitoring and reporting of performance under the Services Agreement between Export Finance Australia (EFA) and NHFIC.
- 2.** The National Housing Finance and Investment Corporation review and update the risk framework and risk assessments to better support the NHFIC Board in the identification and treatment of risks.
- 3.** The National Housing Finance and Investment Corporation implement additional measures to give greater assurance over the quality of, and compliance with, legislation, policies and procedures.
- 4.** The National Housing Finance and Investment Corporation present more consistent and transparent information to the NHFIC Board on how it contributes to ‘improved housing outcomes’.
- 5.** The National Housing Finance and Investment Corporation strengthen its performance measures to address its legislative object to ‘improve housing outcomes’ and to provide a greater understanding of its efficiency and effectiveness in delivering outcomes.

⁷⁹ Australian National Audit Office (ANAO), *Auditor-General Report No. 28 2020-21, Performance Audit: Administration of the National Housing Finance and Investment Corporation*, Commonwealth of Australia, 2021, p 8.

The Review has not sought to duplicate the work of the ANAO audit. However, the Review identified an additional issue in relation to the negotiation of the Services Agreement with EFA. This is discussed further in **Chapter 3**.

Financial arrangements

NHFIC was established as a corporate Commonwealth entity, reflecting the intention that it operate independently from government in exercising its functions and the expectation that it would adopt a corporate model of governance. For budget classification purposes, the AHBA is a Public Financial Corporation and the NHIF is included in the General Government Sector.

Part 5 of the NHFIC Act sets out the financial arrangements for NHFIC. This includes the establishment of the NHFIC Special Account to support the operation of the AHBA, together with requirements in relation to the maintenance of adequate capital and reserves and the payment of dividends to the Commonwealth. The Review has also been asked to assess the feasibility of NHFIC (or its parts) self-funding its operational costs.

NHFIC Special Account

The Government is providing a \$1 billion line of credit via the NHFIC Special Account. The Special Account effectively provides a warehouse facility that allows NHFIC to extend financing to CHPs until sufficient scale is achieved to enable a bond issuance.

The \$1 billion is being appropriated to the Special Account over the period 2017-18 to 2021-22 (see **Table 3**).

Table 3: NHFIC special account – appropriation increases and limit balances (\$ million)

	2017-18	2018-19	2019-20	2020-21	2021-22
Appropriation	150	105	310	270	165
Limit on AHBA line of credit	150	255	565	835	1,000

NHIF Permanent Fund

The Government has provided for \$1 billion over five years (2018-19 to 2022-23) for the operation of the NHIF.

The \$1 billion funding profile consists of funding for concessional loans of \$600 million, equity investments of \$225 million, and grants of \$175 million. The Investment Mandate specifies that the total value of amounts paid under infrastructure grants and the Capacity Building Program must not exceed \$175 million.

Table 4: Profile of grant, equity and concessional loan funding for the NHIF (\$ million)

	2018-19	2019-20	2020-21	2021-22	2022-23
Grant funding	35	35	35	35	35
Equity and concessional loans	165	165	165	165	165
Cumulative total	200	400	600	800	1,000

As required by the Investment Mandate, NHFIC established the Permanent Fund and has allocated the annual amounts appropriated for loans and equity investments to the fund. Any returns on infrastructure loans and investments are to be returned to the fund for the purpose of funding of other future projects.

As at 30 June 2021, NHFIC has approved over \$241.3 million in concessional loans and \$62.8 million in grants under the NHIF. To date, NHFIC has not acquired an equity interest in any project proponent.⁸⁰

Operational costs and self-funding

The Government provided \$63.1 million over four years from 2017-18 (including \$4.8 million in capital) for the establishment of NHFIC.

Table 5: Funding for the establishment of NHFIC (\$ million)

	2017-18	2018-19	2019-20	2020-21	2021-22
Funding for NHFIC	4.8	16.0	18.8	18.7	-
Related capital	-	4.8	-	-	-

In 2019, NHFIC was tasked with two additional functions: the FHLDS and the new research function. The Government provided NHFIC with additional operational funding to establish and undertake these new functions. While the Government's funding to NHFIC for the administration of FHLDS is ongoing, the research function is currently funded to 30 June 2023.

Table 6: Additional funding for NHFIC to administer FHLDS and research (\$ million)

	2019-20	2020-21	2021-22	2022-23
Funding for NHFIC to administer FHLDS	7.0	3.3	3.2	3.5
Funding for NHFIC to undertake research	0.9	2.0	1.7	1.8

Note: In the 2021-22 Budget, a portion of funding previously allocated to NHFIC's research function was re-directed to the Australian Institute of Health and Welfare (AIHW) to support the development of the AIHW's Housing Data Dashboard.

NHFIC is required to set a benchmark return under the AHBA sufficient to allow it to cover the operating costs of the AHBA. Similarly, the funds in the NHIF can be used for meeting the operating costs of the NHIF.

At the time of establishing NHFIC, the Government set out its expectations that NHFIC be financially self-sustaining in the medium to long term. NHFIC has advised that it expects to be self-funding for the majority of its operations from 1 July 2021.

Maintenance of adequate capital and reserves

The NHFIC Act requires that the Board ensures the maintenance of adequate capital and reserves, and the Investment Mandate outlines how this is to be achieved. The Explanatory Statement to the Investment Mandate explains that the benchmark rate of return is a minimum target for the purposes of building an adequate capital reserve (see **Box 7**).

In targeting the benchmark return, NHFIC must seek to develop a portfolio that in aggregate has an acceptable but not excessive level of risk, having regard to the objects of the AHBA and the NHFIC Act. While it is not a prudentially-regulated entity, NHFIC has developed a reserves management approach based on APRA's prudential supervision guidelines for authorised deposit-taking institutions – APRA Prudential Standard APS 110 Capital Adequacy.

⁸⁰ NHFIC response to Senate Estimates question on notice, Budget Estimates 2020-21, BET185.

Box 7: Legislative requirements for the maintenance of capital and reserves

NHFIC Act (section 48)

(1) The Board is required to ensure, according to sound commercial principles, that the capital and reserves of NHFIC at any time are sufficient:

- (a) to meet the likely liabilities (other than guarantee liabilities) of the NHFIC; and
- (b) to make adequate provision for default in the repayment of principal, or in the payment of interest or other charges, in connection with loans made by the NHFIC.

Investment Mandate (section 20)

The Board must target an average return on its loans to registered community housing providers that allows it to:

- (a) cover the operating costs of the AHBA; and
- (b) build an adequate capital reserve in accordance with the subsection 48(1) of the Act.

NHFIC's capital reserve is to enable it to meet unexpected liabilities, thereby mitigating the risk that the Commonwealth's guarantee might be called on. As at 30 June 2021, NHFIC had \$44.8 million in reserve.

Payment of dividends

The NHFIC Act and Investment Mandate require that, over the long term, the Board must consider recommending the payment of a dividend to the Government under section 49 of the NHFIC Act if the AHBA substantially exceeds its benchmark rate of return.

NHFIC is still a relatively new organisation and has not yet paid a dividend. The Explanatory Memorandum to the NHFIC Act stated it was not envisaged that NHFIC would be in a position to recommend the payment of dividends in its initial establishment phase and that once NHFIC had built adequate capital reserves it is expected to consider paying dividends rather than further accumulating capital.

The NHFIC Act sets out a process for consideration of the payment of dividends. The Board is required to write to the Minister each year, within four months of the end of the financial year, recommending whether NHFIC should pay a specified dividend or not. The Minister is required to reply within 30 days either accepting the recommendation or directing the payment of a different amount, or that no dividend be paid. The NHFIC Act also specifies that the dividend for a financial year cannot exceed NHFIC's profit for that year.

Chapter 3 – How could the NHFIC Act be improved?

Key points

- *To support the delivery of social and affordable housing on a greater scale, NHFIC should be given an explicit mandate to ‘crowd in’ other financiers, and should be able to lend to not-for-profit providers that are not registered CHPs.*
- *NHFIC should be given an explicit market development mandate as part of its operation of the Affordable Housing Bond Aggregator. Funding of AHBA loans could achieve greater efficiencies by utilising the expertise of the Australian Office of Financial Management in executing NHFIC bond issues.*
- *Funding and finance under the National Housing Infrastructure Facility may be deployed more quickly through a more proactive origination approach and through positioning the facility as a means of making marginal projects viable.*
- *The Capacity Building Program would be more likely to achieve its objectives if the size of the grants were increased, it was better targeted, and if the grants were offered on a ‘no win, no fee’ basis.*
- *Better data is needed to assess the effectiveness of the First Home Loan Deposit Scheme, including on the types of first home buyers that are successfully supported by the scheme.*
- *Consistent with its core functions, NHFIC’s research should be narrowed to focus on research and data that would help to unlock private finance in social and affordable housing.*
- *To strengthen its governance, the NHFIC Board should undertake regular internal and external reviews, maintain a skills matrix and examine how NHFIC documents and manages conflicts of interest.*
- *The Government should issue NHFIC with a Statement of Expectations to further support NHFIC’s responsibilities as set out in the NHFIC Act and the Investment Mandate.*

Affordable Housing Bond Aggregator

An explicit mandate to ‘crowd in’ other financiers

One of the key objectives of NHFIC, as stated in the NHFIC Act, is to encourage investment in housing, particularly in the social and affordable housing sector. NHFIC has thus far channelled \$2 billion of institutional investment into social and affordable housing through its bond aggregator function (AHBA), on terms that have benefitted housing providers and contributed to the development of new housing.

However, the quantum of investment needed (which the Review estimates to be \$290 billion over the next two decades) to meet the shortfall of social and affordable housing dwellings in Australia is significant. Meeting this challenge will require a concerted effort across all levels of government, partnering with the private sector. NHFIC is only one part of the overall solution but it has an important role to play. The Review considers that, as a public intermediary between community housing providers and private finance, NHFIC is uniquely positioned to catalyse greater levels of private investment in the sector by partnering with other financiers.

The Review observes that NHFIC has been the sole financier on most of the projects it has participated in – there have been few examples where NHFIC has partnered with other financiers to provide debt finance to the CHP sector. In one of those few examples, NHFIC announced a partnership with Cbus Super in August 2020 to provide finance to CHPs participating in a NSW Land and Housing Corporation program to deliver new dwellings. The jointly offered debt package sees NHFIC taking senior debt and Cbus providing mezzanine debt, which increases the amount of debt available to CHPs by 25 to 30 per cent more than NHFIC financing alone. This model demonstrates the opportunity generated by NHFIC partnering with the private sector to leverage the provision of more finance to CHPs.

An Object of the NHFIC Act (section 3b) is for NHFIC to improve housing outcomes by “encouraging investment in housing (particularly in the social or affordable housing sector)”. The accompanying direction given via the Investment Mandate is that this objective is mostly to be achieved via direct lending to CHPs financed by the issuance of social and affordable housing bonds to institutional investors. In making a lending decision under the AHBA, section 19 of the Investment Mandate requires the Board to have regard for a range of matters such as the creditworthiness of the borrower and the degree to which a loan would support affordable housing outcomes. While the Board must also have regard to the degree to which a loan would “complement, leverage or support other Commonwealth, State or Territory finance”, there is no explicit requirement for NHFIC to leverage direct private sector participation in a project, or indeed, to assess whether the project could otherwise proceed without NHFIC participation.⁸¹

The Review considers that amendments to NHFIC’s Investment Mandate should be made to give NHFIC an explicit mandate to ‘crowd in’ and catalyse the participation of private financiers. For NHFIC to play a substantial role in closing the social and affordable housing shortfall in the coming years would otherwise require a vast expansion in its balance sheet (i.e. its Liability Cap). There are substantial risks involved in continuing down the current path of NHFIC establishing itself (perhaps unintentionally) as the lender of sole resort to the CHP sector – such an outcome would not be optimal for the long-term sustainability of the CHP sector.

81 The Investment Mandate does, however, require that finance under the NHIF only be provided if the project, amongst other factors, “would be unlikely to proceed, or would be likely to proceed only at a much later date, or with a lesser impact on affordable housing, without finance under the NHIF (see Investment Mandate section 23d).

Recommendation 1

The Review recommends that NHFIC be given an explicit mandate to ‘crowd in’ other financiers to increase the supply of housing, particularly social and affordable housing. This should be effected via amendments to the Investment Mandate. It is important for NHFIC to ensure its strategic and operational planning is updated to perform this critical role.

Should the Government agree to this recommendation, it will be for the NHFIC Board to determine how it is achieved in practice, although the Review anticipates that it would require a strategic reset for the organisation to successfully fulfil the role that is envisaged. At a tactical level, NHFIC would need to show more than a willingness to partner alongside other investors in financing projects, including as a junior partner – it would need to display a strong preference for teaming and an appetite for collaboration with potential competitors. The Review acknowledges that the transition to this new role will take time, and will be quite challenging for both the NHFIC Board and the NHFIC Executive team.

As noted previously, most of NHFIC’s loans to date have been extended with NHFIC as the sole financier. Moreover, in the limited instances where NHFIC has partnered with another financier, NHFIC has taken the senior debt position. The Review has heard from a number of stakeholders that NHFIC would be able to generate greater participation in the sector from private financiers if it were willing to invest “lower down the capital stack”, including mezzanine finance, or to at least bring in a subordinated debt partner in cases where NHFIC was providing the senior debt. It goes without saying that being lower down the capital stack is a less secure position for NHFIC, and will require some delicate balancing to achieve acceptable outcomes for both the CHP borrowers and all the lenders.

Meeting the objective may also mean that NHFIC demonstrates a preparedness to step back when other private financiers are willing to exclusively provide the finance that would support a project proceeding without NHFIC – in effect, NHFIC ‘waving through’ its competitors whenever it can. Giving greater consideration to whether proposals could be supported by other financiers would encourage NHFIC to reserve its finite lending capacity for supporting projects that would not otherwise proceed without its involvement. Operating in this way would best leverage NHFIC’s balance sheet to maximise total social and affordable housing output, whilst minimising the potential for NHFIC’s lending activities to displace private financing sources. This approach may also put pressure on NHFIC’s profitability, and delay its ability to pay dividends – however the Review believes this is a cost that the Commonwealth should be willing to bear as part of its contribution to the social and affordable housing solution.

As discussed in Chapter 2, NHFIC has established mechanisms to manage the risks associated with issuing loans, and regularly utilises General Security Agreements to ensure that it has the first right to recourse in the event of default. However, some stakeholders view NHFIC’s security requirements as more onerous than required, possibly hampering the ability of these CHPs to access additional finance from other lenders once they have secured NHFIC finance. It is notable that the strong credit history of CHPs in Australia means that default is very unlikely to occur, and the interests of state and territory governments in the delivery of social and affordable housing mean that even if it were to occur, properties in failing CHPs are almost certain to be transferred to another housing provider. **Recommendation 1**, if agreed by Government, may also cause the Board to consider the impact of NHFIC’s security requirements on the ability of borrowers to access finance from other lenders.

Although the Commonwealth’s explicit guarantee of NHFIC’s liabilities affords it the ability to provide finance at an extremely attractive price for CHPs, some stakeholders have noted that commercial lenders and other private financiers have more expertise and are better able to manage the risks involved in lending for construction finance. Another practical implication of the proposed changes

could, therefore, be for NHFIC to step back in some instances from providing construction finance where a commercial lender was willing to finance the construction phase. A commercial lender could seek to provide construction finance to CHPs with an expectation, or potentially with a firm commitment from NHFIC, to refinance the CHP upon completion of the new dwellings. This would be a practical example of how NHFIC offering to provide lower-risk, term finance can leverage in private capital to support the provision of new social and affordable housing supply. There are some potential downsides for CHPs associated with this approach, such as dealing with two sets of finance documents. However, the Review believes these downsides can be minimised if NHFIC fully embraces this new role.

NHFIC could also choose to lend with greater reliance on cash flow and interest coverage covenants, as opposed to their current approach which appears to mostly rely on traditional asset-backed lending. Such a change of approach could be supported by the high credit quality and long-term stability of cash flows in the sector, underpinned by state and territory government funding and Commonwealth Rent Assistance. NHFIC advised the Review that it is moving in this direction when it can, however the Review believes that the Board's risk appetite would need to be recalibrated to fully embrace this approach.

In addition to encouraging some fundamental changes to NHFIC's lending approach, these changes will signal to private financiers that NHFIC is in the sector as a potential partner, arranger and collaborator, rather than competitor or lender of sole resort. This may lead to greater innovation in the sector and generate new financing models for the acquisition and development of social housing stock. Crowding in private finance will deliver both immediate and long-term benefits to the CHP sector – see **Box 8**. It will increase the total quantum of investment available for the sector, helping to address the shortfall at a faster rate. It will also help to increase competitive tension in the market for financing social and affordable housing, creating choice and innovation in lending and avoiding an outcome where NHFIC is entrenched as the only lender in the CHP sector.

The Review acknowledges that while these amendments will put NHFIC on the right path to catalysing greater levels of social and affordable housing, as discussed in Chapter 1, access to finance is only one factor, albeit an important one, to the provision of below-market rent housing. In order for NHFIC to be able to successfully crowd in private finance, NHFIC's operations must be supported by other forms of government subsidy, whether at the Commonwealth, State or Territory or local government level, as well as renewed interest and innovation from the private sector.

Box 8: Lowering the cost of capital for social and affordable housing

As a relatively new asset class for the private sector, it is expected that investors are still familiarising themselves with the risks and opportunities of social and affordable housing. NHFIC's issuance of social and affordable housing bonds is playing an important role in focussing investor attention on this asset class. However, from consultations it was apparent that the robustness of the cashflows associated with the asset class are yet to be fully appreciated. The Review considers that NHFIC can contribute to the development of this market by helping to recalibrate perceptions about the attractiveness of this asset class.

During consultations the Review heard that investors typically view potential investments in this asset class as higher-risk 'property' investments. However, due to the extraordinary stability of the underlying cash flows (given they are largely underwritten by Commonwealth and state government transfers) social and affordable housing assets are arguably more akin to lower-risk infrastructure assets, rather than higher-risk property assets. Indeed, one experienced investor argued that the social and affordable housing sector could be re-rated as 'mid-risk' once the underlying dynamics are understood.

Some parallels can be drawn to the development of the market for the financing of infrastructure projects. Prior to the 1990s, governments struggled to attract private financing for large infrastructure projects. The development of an infrastructure bond market, alongside increasing understanding of the stability and reliability of the cashflows associated with infrastructure investments, helped to drive down the sector's cost of equity and enabled it to attract a much larger volume of private investment at lower cost. This has largely been a positive outcome for investors, who have gained access to stable, lower-risk investments, and for governments, that are able to better finance infrastructure projects with private sector participation.

The Review has been presented with some evidence that investors' perceptions and appetite for social and affordable housing investments are beginning to change. In one case, a large institutional investor recognised a social and affordable housing development as being much lower risk than it would have classified an equivalent market-rate housing development, reducing their required rate of return on the investment by almost 40 per cent (relative to the equivalent market-rate housing development). Should this shift in investor perceptions become the norm, it would have a significant and favourable impact on the ability of social and affordable housing providers to attract capital.

Give NHFIC an explicit market development mandate

The development of a social and affordable housing asset class to drive long term investment in the sector is an implicit goal of the AHBA. Building up this asset class will give the sector confidence to expand knowing that there are long term investors willing to finance their activities. Through its operation of the AHBA, NHFIC has begun the process of establishing an affordable housing asset class.

Development of affordable housing bonds as an asset class is an important way to channel institutional investment into social and affordable housing but, as discussed elsewhere in this report, NHFIC financing alone will be insufficient to close the social and affordable housing gap. It is critical that a vibrant private financing market for social and affordable housing emerges, and NHFIC has an important role to play in its development.

For this reason, the Review considers that NHFIC should be given a more explicit market development mandate that extends beyond just the development of an institutional investor base for NHFIC bonds.

Developing social and affordable housing as an asset class

There are three main factors influencing the development of an asset class:

- **Scale** is the key factor which needs to be met in order to define affordable housing as an asset class. Institutional investors need to devote resources to determine the best deployment of their limited capital – given the resource constraints all investors face, scale is a primary factor in determining whether investment will take place at an institutional level.
- The **track record** of the underlying borrower is an essential element to allow lenders to have the confidence to lend to any investment. This can be achieved by a borrower proving to a third party a history of good credit behaviour and is often formalised through obtaining a credit rating from a ratings agency. At the sector level, high levels of transparency will accelerate lender familiarity and will contribute greatly to enhancing confidence in the sector and the individual borrowers.
- **Standardisation** of investment offerings is greatly beneficial when investors complete due diligence on an investment. An investment will be more likely to be undertaken if the supporting documentation and assessment metrics the underlying borrower provides on their activities and assets is consistent across the asset class. NHFIC could take a leadership role in creating standardisation of lending documents and lending metrics for the CHP sector.

The market for affordable housing debt is still in its infancy in Australia and although NHFIC's bond issues to date have been oversubscribed, secondary market trading for these bonds appears to be limited. NHFIC has issued \$2 billion in affordable housing bonds. This is a relatively small volume for institutional investor interest – other domestic debt markets are orders of magnitude larger: the non-financial corporate bond market is over \$50 billion in size and the market for government debt is over a trillion dollars⁸². A private financing market which extends beyond investment in NHFIC social bonds requires a catalyst to spur investment at the scale required for institutional investors. NHFIC is ideally positioned to play this role given its relatively large presence in this small but important and growing market.

Due to the small size of individual CHP borrowers, none have yet applied for a rating from a ratings agency. As lender to CHPs, NHFIC is amassing a comprehensive data set tracking their financial performance and has the ability to leverage its data and insights in order to support new lenders into the affordable housing market, perhaps without CHPs needing to demonstrate creditworthiness through a formal ratings process.

Once larger CHPs have developed sufficient scale to apply for an individual rating, a similar path can be followed to the development of the market for housing provider debt in the UK whereby some housing associations have a formal credit rating and access the market in their own right at rates competitive with the UK bond aggregator. The AHBA will still have a role in aggregating the financing requirements of smaller CHPs and will also broadly benefit from greater investment demand in the sector. The Review believes such a transition will take some years to achieve, but will only occur if there is a catalyser such as NHFIC paving the road ahead.

It is worth noting that the AHBA currently relies on the Government guarantee of NHFIC's liabilities which allows NHFIC to borrow with the Government's AAA credit rating. However this means that the credit risk of the underlying investment (CHP loans) is not explicitly assessed by the market. It is partly for this reason that retaining the Government guarantee for a period beyond what is necessary for the AHBA to reach sufficient scale and maturity may not be in the long-term interests of the CHP sector.

82 Reserve Bank of Australia (RBA), Bond Issuance Chart Pack, RBA website, accessed 24 March 2021.
<https://www.rba.gov.au/chart-pack/bond-issuance.html>

NHFIC has developed a standard process for CHPs to follow when making loan applications. Although this imposes constraints on CHPs and requires a higher level of financial literacy, standard documentation and reporting is an important tool in developing the financial capability of the CHP sector and is setting up providers to be able to access the market in a more consistent manner. Through this process of standardisation, CHPs should be better able to engage directly with private finance providers which will support the growth of the affordable housing asset class.

Investor relations are a cornerstone of ensuring that affordable housing debt develops as a mainstream investment option. NHFIC should be formally mandated to engage with the investment community to understand the requirements for large scale institutional investment in CHP debt. In addition, NHFIC should also be seeking to educate the market on the opportunities and benefits of affordable housing as an asset class.

NHFIC has already begun the process of developing a CHP track record and standardisation as part of its lending functions under the AHBA. It is conspicuous, however, that neither the NHFIC Act nor Investment Mandate explicitly require NHFIC to engage in market development. This requirement should be made explicit to ensure that the activities of NHFIC are consistent with developing the financing market for social and affordable housing.

Recommendation 2

The Review recommends amending the Investment Mandate to explicitly require NHFIC to engage in activities to develop the market for social and affordable housing bonds as part of its operation of the AHBA.

Raising funding for the social and affordable housing sector more efficiently

The previous chapter outlined the costs and benefits of the model chosen to fund the loans written by the AHBA. The additional cost of NHFIC issuing at a spread to Australian Government Securities (AGS) has been significant (totalling around \$65 million for its five largest issues). The Review acknowledges, however, that the Government made an explicit decision to establish NHFIC outside of the General Government Sector and to allow it to raise funding under its own name, with the aim of developing a new financial instrument to channel institutional investment into social and affordable housing.

The Review takes that decision as given and believes there would be some costs, from policy inconsistency, if that arrangement were to be undone. Nevertheless, and while the spread to AGS that NHFIC issues at is unlikely to be reduced to zero under the existing model, the Review believes there is the potential for more efficiencies to be gained in the issuance of NHFIC bonds.

NHFIC's current issuance model sees NHFIC issue new bond lines each time they access the market. This is achieved through a syndication process which requires the use of so-called "Joint Lead Managers" (JLMs) – investment banks with expertise in bond markets. The JLMs advise NHFIC on market conditions, issuance strategy and pricing, and utilise their networks to find investors. NHFIC's practice to date of only issuing new bond lines results in NHFIC incurring a new issuance concession every time they access the market. For an explanation of the new issuance concession see **Chapter 2**.

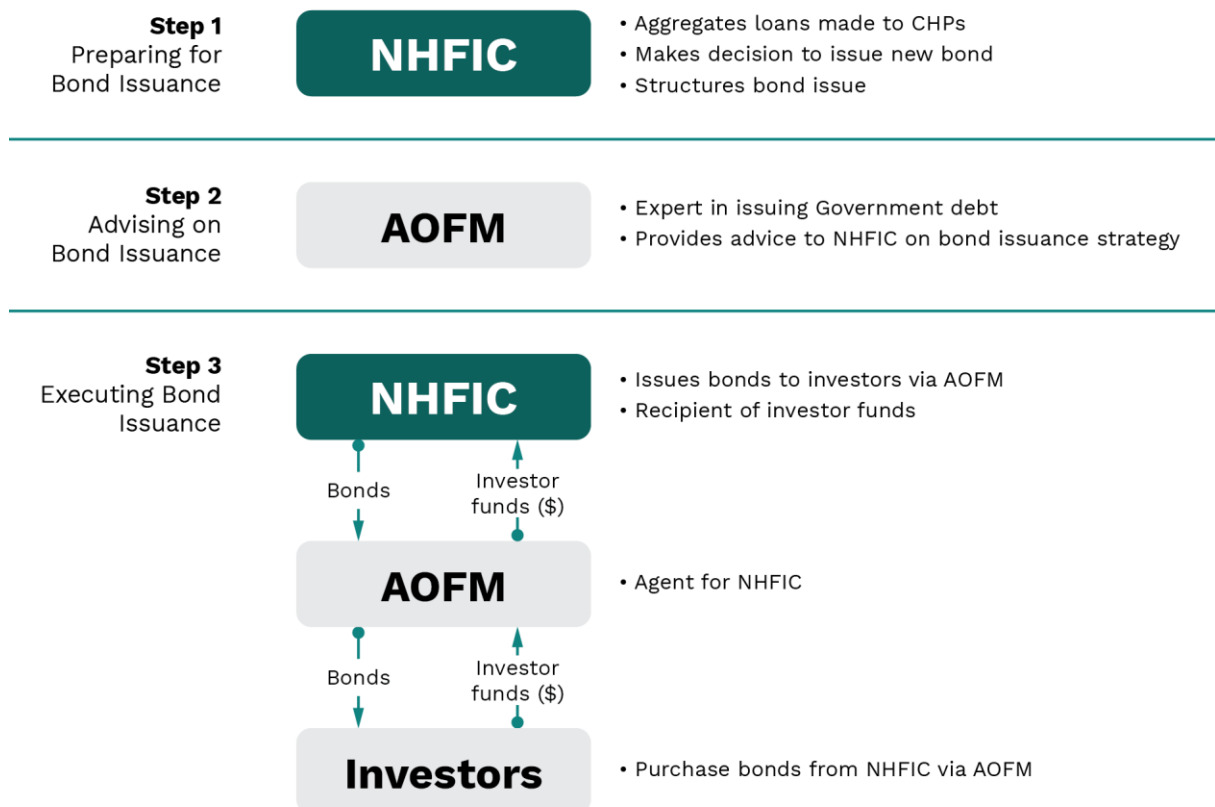
New issuance concessions can be minimal if the issuance is undertaken by an experienced issuer with an established track record or can be eliminated if the issuer issues new debt into an existing bond line. In the case of NHFIC's June 2032 bond issuance, for every basis point conceded the cost to the issuer was approximately \$600,000. These costs can make a significant difference to the overall rate at which NHFIC can borrow and therefore the rate that they can pass on to CHPs.

Consideration could be given to utilising the experience the Commonwealth already has in issuing debt securities through the Australian Office of Financial Management (AOFM). Under such a model,

NHFIC could be directed to engage the AOFM as an advisor to, and potentially the executor of, NHFIC bond issuance. NHFIC and AOFM would collaborate to determine the optimum strategy for meeting NHFIC’s periodic financing requirement.

For instance, at any one time the optimum strategy could be to issue into an existing line via a competitive auction. An added advantage of such an option is that it would avoid the additional fees incurred in bringing a new bond line to market (such as the syndication fees paid to JLMs). NHFIC’s use of JLMs for its five fixed rate bond transactions incurred around \$3 million in fees. **Figure 14** is a stylised representation of this particular bond issuance process.

Figure 14: Model of NHFIC bond issuance through competitive auction



Note: the role of AOFM in Step 3 would vary depending on the particular issuance option chosen. For example, in a competitive auction AOFM may be able to use its existing platforms and relationships with registered bidders to execute the transaction, while in the case of a syndicated issue the services of a JLM would be required.

Under this model, NHFIC’s role as the ultimate issuer and promoter of these bonds should be retained – the structuring of each bond issue, the associated documentation, investor relations (including roadshows), and other related tasks would continue to be undertaken by NHFIC. In the case of a competitive auction, the AOFM may execute the transaction, leveraging their deep expertise in issuing Australian Government debt. While the Review believes the potential efficiency and cost savings from such an arrangement to be significant, it is important to note that the risks associated with bringing a new bond issue to market cannot be eliminated regardless of the issuance method and, as is the case with any market, a pricing outcome cannot be guaranteed.

Recommendation 3

The Review recommends that consideration be given to utilising the expertise of the Australian Office of Financial Management (AOFM) in executing NHFIC’s bond issuance.

Not closing off the AHBA’s ability to issue offshore

The Investment Mandate currently prohibits NHFIC from issuing bonds in an offshore market before 1 July 2023. Although NHFIC has successfully raised funds in the Australian bond market, the scale of the domestic market limits the volume and tenor of bonds that can be issued, particularly longer-dated bonds.

Offshore markets offer access to a larger and more diverse investor base, which may afford some issuers the ability to raise larger volumes and at significantly longer tenors than in the domestic market. CHPs have expressed a desire to reduce their refinancing risk as much as possible – the best way to achieve this is to extend the tenor of financing towards the effective life of the underlying asset being financed. For financing new social and affordable dwellings the optimal tenor could extend past 30 years.

Offshore bond markets, such as those in the US, UK and Europe, may offer issuers access to very long tenor debt at cost effective rates, even out to 50 years. The UK has an established affordable housing bond market, for example, where issuers of these bonds are regularly able to access tenors of up to 35 years. The US private placement market provides another potential source of long-tenor funding. The US private placement market features an investor base comprised mostly of US pension and insurance funds, which have an appetite for purchasing long-dated bonds because of the long-term nature of their liabilities. The market offers long tenors, flexible issuance conditions and can support placements from under \$100 million to over \$1 billion.⁸³ The exchange rate risk associated with borrowing offshore can be eliminated with clean currency swaps over the duration of the bond life, with the cost of such swaps incorporated into the cost of borrowing.

The Review recognises that the rationale for prohibiting NHFIC from issuing offshore before 1 July 2023 was to support the development of a domestic market for affordable housing debt. Given the very large pool of capital available via our domestic superannuation savings system and the potential advantages to be gained from deploying more of those savings domestically (including by investing in the social and affordable housing sector), the Review agrees that the domestic market should be the primary issuance pathway for NHFIC bonds while the domestic market adapts to NHFIC’s desire for longer tenors.

The Review also considers that were NHFIC to contemplate raising bond funding offshore to achieve longer tenors that cannot be achieved in the domestic market, this should be supported by the Government. The Review believes it would be appropriate for the Government to expressly permit NHFIC to contemplate offshore bond issuance in the future, once a domestic market for affordable housing debt is better established, and if the potential benefits to the sector were deemed to be sufficiently large.

Recommendation 4

The Review recommends that NHFIC be expressly permitted to consider issuing bonds in offshore markets, once a domestic market for affordable housing debt is better established, and if the potential benefits to the sector were deemed to be sufficiently large from doing so.

83 MetLife Investment Management (MetLife), *Private Capital – Private Placement Debt Investments*, MetLife website, 2020.

<https://investments.metlife.com/content/dam/metlifecom/us/investments/insights/research-topics/private-capital/pdf/MetLife-Investment-Management-Private-Placement-Debt-Investments-Overview.pdf>

Extending eligibility for NHFIC loans

The NHFIC Act and Investment Mandate limits lending under the AHBA to “registered community housing providers”, defined as “a community housing provider (however described) that is registered under a law of, or under a scheme administered by, a State or Territory.” The Explanatory Memorandum to the NHFIC Act notes that CHPs are non-government, generally not-for-profit organisations which provide subsidised housing for people on very low, low or moderate incomes or for people with additional needs.

NHFIC and stakeholders across government, private financiers and the CHP sector anticipate that there will be continued appetite from registered CHPs for NHFIC finance into the future. However, the inescapable truth is that the financing capacity of the CHP sector, given current policy settings, is simply inadequate to substantially address the need for social and affordable housing over the coming decades. The Review considers that the current requirement for NHFIC to lend only to registered CHPs imposes an unnecessary restraint on the AHBA’s activities.

The importance of a nationally consistent regulatory framework for the CHPs that NHFIC lends to was noted in EY’s report on the establishment of the AHBA⁸⁴. However, the Review considers that NHFIC’s credit assessment process, including requirements for loan security and financial covenants, ensure that NHFIC is able to manage financial risks effectively without needing to rely on state-based regulatory systems. NHFIC requires detailed reporting from its borrowers in order to satisfy its portfolio monitoring and risk management requirements. This reporting has been established specifically to monitor financial performance in order to provide early warning signs in relation to the loans NHFIC has provided. These requirements can easily be applied to other not-for-profit entities if lending eligibility is expanded.

The Review considers that extending NHFIC’s ability to lend to not-for-profit entities beyond registered CHPs, such as non-registered housing providers and special purpose vehicles, will help to catalyse further private sector participation and partnerships to deliver social and affordable housing. This amendment is likely to create further innovation and competition in social and affordable housing development as different types of expertise are drawn into the sector, including project financing knowledge and greater development capabilities.

Recommendation 5

The Review recommends that NHFIC’s Investment Mandate be amended to extend NHFIC the ability to lend to other not-for-profit providers of social and affordable housing that are not registered community housing providers, where it is satisfied that the risks of doing so are manageable.

The Review notes that a key part of social and affordable housing provision is not only the development of housing assets but the management of tenancies and wraparound support services for tenants on an ongoing basis. As a financier and intermediary, NHFIC will need to play a role in ensuring that mechanisms are in place, such as through the covenants attached to NHFIC loans, for tenancies to be appropriately managed where social and affordable housing development is undertaken by entities other than registered CHPs.

The Review notes that such a change should not result in NHFIC needing to undertake a quasi-regulatory role in the sector. Regardless of the registration status of the entities that NHFIC lends to, the Review considers that it will remain important for NHFIC to work with all governments to ensure

84 EY, 2017, p 16.

appropriate mechanisms exist to manage the broader regulatory needs of a growing and diverse sector.

Extending the Government guarantee of NHFIC's liabilities

The Commonwealth guarantee of NHFIC's liabilities has been central to the AHBA's success in raising finance in the Australian debt capital market. The guarantee has supported investor confidence by conferring the Commonwealth's AAA credit rating on NHFIC bonds and effectively de-risking investment in these bonds. This has resulted in a high level of investor interest in NHFIC's bond issuance program, attracting \$2 billion in capital thus far, including from investors who may not have otherwise invested in social and affordable housing. The guarantee has provided substantial benefits to the CHPs that have received AHBA finance, through lower financing costs and reduced refinancing risk.

The guarantee is reflected as a contingent liability on the Commonwealth's balance sheet. The Commonwealth is liable for any claims arising from a CHP default on an AHBA loan that cannot be met by NHFIC's capital reserves. The rate of CHP default in Australia is extremely low and \$3 billion (NHFIC's current Liability Cap) is a very modest amount relative to total contingent risks on the Commonwealth's balance sheet. NHFIC seeks to manage this risk through their loan security arrangements and financial performance monitoring. Nevertheless, the provision of the guarantee is not entirely costless – increases in contingent liabilities weaken the Commonwealth's financial strength in the eyes of credit rating agencies and investors which, at the margin, is likely to result in a higher cost of borrowing.

Beyond the contingent liability risks, there are also indirect costs associated with the provision of the Commonwealth guarantee. The substantial pricing benefit that the guarantee affords to NHFIC may be discouraging other lenders from participating in the sector if they consider that they are unable to compete with NHFIC's pricing. Over time, this risks a situation where NHFIC becomes the "lender of only resort" to the sector, exposing the sector to large refinancing risks when existing NHFIC loans become due (i.e. in 8-15 years' time), and reinforces the need for NHFIC to crowd in private finance in its lending operations through partnerships with other financiers.

Finally, the lower yield that the guarantee allows NHFIC to issue at, whilst providing cheaper finance to CHPs, may also be precluding cohorts of institutional investors with higher yield mandates from participating in NHFIC bond issuances, and thus limit the potential investor base.

Nevertheless, the Review considers that the substantial benefits provided by the Government guarantee continue, at this time, to outweigh the costs of the intervention. Maintaining the Government guarantee will continue to underwrite investor confidence in this new asset class and afford investors more time to become familiar with its underlying characteristics. It is still early stages in the operation of the AHBA, and stakeholders overwhelmingly agree on the importance of maintaining the guarantee until NHFIC's bond issuance program reaches a greater level of maturity.

The long-term goal should be for the AHBA to achieve the scale, positive track record and standardisation of offering that allows it to raise low-cost, long-term finance without the assistance of the guarantee. However, the premature removal of the guarantee risks unnecessarily disrupting market confidence in the Government's commitment to the development of this new asset class. Removing the guarantee too early would also impact the price and tenor of the AHBA's issuance, with attendant impacts on the finance available to CHPs.

The NHFIC Act states that the Commonwealth guarantee cannot be removed "earlier than 1 July 2023", and provides a mechanism for the Minister to determine a date for the removal of the guarantee after this date. This equates to a period of five years following the establishment of the AHBA. The Review considers that it would be beneficial to extend the period of certainty during which the guarantee will remain in place. Doing so would signal the Government's commitment to

the continued success of the AHBA and recognise that the development of the market for private investment in social and affordable housing will take time.

Extending the period in which the Government guarantee must remain in force will underwrite policy certainty for NHFIC and the CHP sector. A review of the ongoing need for the Government guarantee should occur well in advance of this date.

Recommendation 6

The Review recommends the NHFIC Act be amended to extend the period during which the Government guarantee remains in force and include a requirement for a review of the guarantee to be undertaken prior to this extended date.

Increasing the Liability Cap

Under NHFIC's Investment Mandate, a cap of \$3 billion (the Liability Cap) applies to the amount of liabilities that NHFIC can incur under the Guarantee. NHFIC cannot incur liabilities exceeding the Liability Cap without prior agreement of the Minister for Housing and the Minister for Finance.

The Liability Cap imposes a limit on the scale of NHFIC's lending and bond issuance activities. The Liability Cap was set at \$2 billion when NHFIC was established. However, NHFIC's activities to date demonstrate that the demand for loans from CHPs has been higher than anticipated. In recognition of this, and to allow NHFIC sufficient headroom, the Liability Cap was increased from \$2 billion to \$3 billion in the 2020-21 Budget. There is currently no formal process through which to review the Liability Cap or indicate the circumstances in which the Government will consider further increases.

The current trajectory of NHFIC's lending and bond issuance activities and consultation with CHPs regarding their financing pipeline suggests that a further increase to the Liability Cap will be sought within the relatively near term. This is partly attributable to the increase in social and affordable housing investment by state and territory governments in response to the COVID-19 pandemic, which is likely to increase the demand for finance from CHPs as they accumulate additional assets against which to borrow.

The Review considers that it is important for NHFIC to have sufficient headroom under the Liability Cap and ongoing policy certainty in order to optimise its lending activities. This will provide certainty to the CHP sector that NHFIC is able to continue to extend finance and will signal to investors NHFIC's continued intention to issue bonds on a semi-regular basis. This is an important factor in continuing to develop the market for NHFIC bonds.

However, consistent with the central theme of this Review, increasing NHFIC's Liability Cap is not the 'magic bullet' for solving the shortage of social and affordable housing in Australia. With the shortfall of social and affordable housing dwellings estimated to require an investment of \$290 billion over the next two decades, even if NHFIC's funding is increased ten-fold, direct NHFIC financing can only provide a small proportion of the total investment required. The Liability Cap is an appropriate safeguard to the Government's balance sheet that simultaneously encourages NHFIC to use its finite lending power in a way that recognises that, if it is to deliver social and affordable housing at scale, it must bring other financiers to the table.

The Review considers that the current arrangement of ad hoc consideration of the level of the Liability Cap is less than ideal. Imposing a defined period under which the current Liability Cap will be maintained and determining a regular schedule of review will help to provide more certainty to NHFIC and its stakeholders. The operation of a cap together with a regular schedule of review will effectively set a 'lending run rate' for NHFIC's lending activities and reinforce the need for it to use its

finite lending power judiciously and in partnership with other financiers if it is to deliver housing outcomes at scale.

Should the Government proceed with the Review's recommendation to give NHFIC an explicit mandate to 'crowd in' private financiers, the regular review of the Liability Cap should also evaluate NHFIC's level of success against this measure in order to estimate the additional increase in total investment in the sector that could be leveraged by further increasing the Liability Cap.

Regular reviews of the Liability Cap should consider a number of factors, including:

- the level of private investment that is likely to be catalysed by the proposed increase in the Liability Cap;
- the number of dwellings the increase is likely to facilitate;
- NHFIC's pipeline of potential financing deals; and
- the number of bond issuances the increase would facilitate.

Recommendation 7

The Review recommends that the current arrangement of ad hoc consideration of the Liability Cap be replaced with a regular schedule of review. The regular review should focus on the quantum of private sector investment in the sector that could be leveraged by any further increase to the Liability Cap.

National Housing Infrastructure Facility

If utilised well, the NHIF can help to overcome some of the impediments to developing new housing supply. It can also be utilised to leverage a higher proportion of social and affordable housing in new developments. However, the take-up of the NHIF has been slow and it has struggled to gain widespread interest from potential project proponents.

Given that the NHIF offers what is essentially 'free money' (in the form of grants) and cheap finance (in the form of concessional loans and equity), the hesitance in the market to pursue grant funding and finance from the NHIF is telling. It may reveal a lack of familiarity with the NHIF and uncertainty around who can (and how to) access it. Alternatively, it may indicate a misalignment between what project proponents need and what the NHIF is able to offer within its current design parameters.

To generate more tangible interest in the NHIF that might proceed to approval stage, NHFIC has indicated to the Review that it is actively working on increasing stakeholder awareness and understanding of the NHIF and what support it can provide. The recent agreement with the NSW Land and Housing Corporation to provide up to \$100 million from the NHIF for infrastructure to support social and affordable housing is a positive sign. Similar agencies in other states and territories may be a natural customer base for the NHIF, as they are more likely to be project proponents on large greenfield sites requiring significant critical infrastructure. Agreements with other states and some larger CHPs and local governments should be pursued. If some of these opportunities can be realised, particularly on larger greenfield projects, the deployment of NHIF grants and finance can be expected to accelerate.

NHFIC may be able to deploy NHIF finance and grants more quickly through a more proactive origination approach. An internal strategy document for the NHIF viewed by the Review provides evidence that it is moving in that direction. The Review recommends some additional direction from Government to give added impetus and support to that more proactive approach, and to afford NHFIC more time for this new strategy to bear fruit. However, if take-up of the NHIF remains slow over the next two years, the Government should consider more fundamental changes to the NHIF.

Currently, knowledge of the NHIF and its potential to make marginal projects viable is not well understood amongst potential project proponents. Greater deployment of the NHIF requires a more proactive approach in promoting the NHIF and identifying suitable projects. NHFIC should be actively pitching the benefits of the NHIF to proponents of marginal projects where funding and financing support for the critical infrastructure component of a project may help to make projects viable. The Review considers that further direction from Government would support this more proactive approach.

Recommendation 8

The Review recommends that the Government direct NHFIC to proactively seek out projects that could benefit from financing and grants under the NHIF. This should be a priority task for NHFIC and should include quarterly reporting to the Minister.

Similarly, the NHIF has the potential to be used more proactively to leverage better social and affordable housing outcomes on a project-by-project basis. Rather than simply assessing whether proposed projects meet the NHIF’s eligibility criteria (including whether they include a social and affordable housing component), the availability of support from the NHIF can be used as a mechanism to leverage a greater proportion of social and affordable housing units within already conceived projects (that may or may not have expressed an interest in applying to the NHIF).

Recommendation 9

The Review recommends that the Government direct NHFIC to better leverage NHIF finance and funding to achieve a greater proportion of social and affordable housing in projects.

At least part of the reason for the lukewarm demand for the NHIF amongst potential project proponents appears to stem from confusion surrounding what is an eligible project. In particular, there is confusion surrounding whether the NHIF is available for expanding housing supply more generally (i.e. housing provided at market rates) or only for supporting new housing supply that has a social and affordable housing component. Further, it is not clear whether “affordable housing” includes only rental housing or also lower-priced housing for ownership.

The Review found that developers were largely unaware of the existence of the NHIF or assumed it was not available for pure market-rate developments which do not deliver any affordable housing. The lack of clarity and awareness surrounding the NHIF amongst potential project proponents suggests a need for more active marketing and education on NHFIC’s part. However, it also suggests the need for more legislative clarity on the true intent of the NHIF and the types of projects it can support.

Recommendation 10

The Review recommends that the Investment Mandate be amended to provide more clarity on the types of projects that are eligible under the NHIF, particularly whether the NHIF can be used to support projects that do not include a social or affordable housing component.

Further potential improvements

Further improvements to the design of the NHIF could include making it easier for NHIF grant funding to be deployed. Currently, the Investment Mandate requires that grant proposals seeking other

forms of financing from the NHIF as part of a blended financing arrangement are to be preferred.⁸⁵ This is reinforced in the NHIF Guidelines which state that “Applicants should be aware that consistent with its Investment Mandate, the NHFIC will preference NHIF Grant proposals that seek other forms of NHIF Finance in conjunction with the NHIF Grant (such as a NHIF Loan).”⁸⁶

In consultation with the Review, stakeholders expressed enthusiasm for NHIF grants. However, some stakeholders suggested that the strong preference for NHIF grants to be offered as part of a blended finance product may have the unintended effect of compelling entities to enter more complicated financing arrangements than originally contemplated. The Review considers that there may be benefit in NHFIC introducing more flexibility around the NHIF grant and financing products, such as potentially offering standalone NHIF grants. This may be especially useful for CHPs.

Stakeholders also commented on the complexities experienced by applicants when applying for NHIF grants and financing products. While thorough interrogation of applications is to be encouraged, the burden placed on applicants could be mitigated by streamlining the application and information gathering process, including by combining the EOI and formal application processes. NHFIC could also pursue other opportunities to promote efficiency in the application process, such as by adopting a standard form addendum for CHP execution, where CHPs already have an existing financing arrangement with NHFIC under the AHBA.

Future consideration of the NHIF

The above refinements and NHFIC’s updated strategy should help better achieve the policy intent of the NHIF. However, if the NHIF remains relatively underutilised after another two years of operation, the Review considers that the Government should undertake an in-depth assessment as to the reasons behind this. For example, further changes could be considered to NHFIC’s operation of the NHIF or the Government could consider whether the NHIF’s budget appropriation could be better utilised elsewhere.

While not necessarily endorsing these, the Review considers that some of the more fundamental policy changes that could be considered include, but are not limited to:

- opening access to the NHIF to a wider set of potential project proponents, including private developers on a standalone basis (rather than via a special purpose vehicle arrangement with a CHP);
- broadening the definition of critical infrastructure to include, for instance, new social and affordable housing itself; and
- increasing the proportion of the NHIF that can be contributed through grants or project equity.

Recommendation 11

The Review recommends that if the NHIF remains relatively underutilised after another two years of operation, the Government should undertake an in-depth assessment of NHFIC’s operation of the NHIF before considering more fundamental changes, including whether the NHIF’s budget allocation could be better utilised elsewhere.

⁸⁵ *National Housing Finance and Investment Corporation Investment Mandate Direction 2018*, subsection 24(5).

⁸⁶ NHFIC, *NHFIC Guidelines for National Housing Infrastructure Facility Loans, Grants and Equity Investments*, NHFIC website, August 2018, p 21. <https://www.nhfc.gov.au/media/1086/final-nhif-guidelines.pdf>

Better supporting social and affordable housing providers (Capacity Building Program grants)

The Capacity Building Program is an important element of NHFIC's offering to CHPs. It seeks to build CHP capabilities in four key areas: finance, business planning, property development and risk management. The program is targeted by NHFIC at assisting CHPs in applying for NHFIC finance under the AHBA or the NHIF. Building these capabilities also makes it easier for CHPs to engage with the commercial sector more broadly.

NHFIC has been given significant discretion over the administration of the program – the NHFIC Act and Investment Mandate do not prescribe the operation of the program and leave it open to NHFIC to determine its operating parameters. As a result, NHFIC is responsible for determining, among other things, the eligibility of applicants, grant delivery method and amount payable under the \$1.5 million total cap of program funding prescribed by the Investment Mandate. NHFIC has determined that grants of up to \$20,000 each are available under the program.

The Review, and almost all stakeholders the Review spoke to on the Capacity Building Program grants, supports the program's intention. However, given mixed feedback on the success of the program to date in realising its stated intention, and the limited take up of the grants to date (around \$675,000 of the \$1.5 million available has been used), a number of options should be considered to enhance the efficacy of the program.

Increasing the size of grants available

Capacity Building Program grants are primarily intended to cover the areas of expertise required of CHPs to successfully access NHFIC finance. However, the size of the grant available may be too small to allow access to a sufficient level of services. The small size of the grant available necessitates either the reduction of services acquired by a CHP, or the commitment of its own funds to access the level of services required to support a successful application under the AHBA or NHIF. The Review considers that the size of grants available is too small to provide CHPs with the level of consultancy services generally required.

Recommendation 12

The Review recommends that consideration be given to increasing the maximum size of individual grants available under the Capacity Building Program to \$75,000.

Narrowing grant eligibility to CHPs who need it most

Given that the Capacity Building Program grants are an important tool to assist CHPs in obtaining NHFIC financing, the program should be well targeted and accessible to the CHPs who stand to receive the most benefit.

The Review understands that Capacity Building Program grants are available to all registered CHPs and NHFIC does not impose further eligibility conditions on applicants, with the exception of applicants submitting an expression of interest in obtaining AHBA or NHIF financing. The Review believes there is scope to better target access to the program to those CHPs that most need the support.

The Review considers that smaller CHPs (typically those below Tier 1) stand to receive more benefit from a Capacity Building Program grant than the larger, more established Tier 1 providers who are more likely, given their scale, to have sufficient financial resources to be able to seek corporate

advisory services to support a NHFIC financing application of their own accord. In addition, once a CHP has gone through the process of applying for a NHFIC grant, the experience and capability gained from this process could reduce the effectiveness of further capacity building funding.

Recommendation 13

The Review recommends that consideration be given to whether access to Capacity Building Program grants be targeted to those that would receive the greatest benefit from it, such as first-time applicants for NHFIC financing.

Structuring grants to reduce risks for CHPs applying for NHFIC finance

Consideration should also be given to the way that these grants are structured. The current application process requires that CHPs contract and receive these grants for capacity building services with no guarantee that their application under the AHBA or NHIF will be successful. Given the small size of grants available, CHPs may need to source additional corporate advisory services to support an application for NHFIC financing. The risk of an application not being successful can act as a disincentive for CHPs to apply for NHFIC financing.

A possible way to restructure the grant offering is to implement a ‘no win, no fee’ model, whereby Capacity Building Program grants are paid to providers of corporate advisory services in the event that the CHP they are advising is ultimately successful in its application for NHFIC finance. If the application is unsuccessful no fees would be payable. Under this model, providers of corporate advisory services would bear the financial risk of an application not being successful, rather than the CHP.

This model would help to remove some of the financial risks faced by CHPs considering whether to apply for NHFIC financing. It would also help to provide them with a level of certainty that their application will lead to a positive outcome – given providers of corporate advisory services bear the risk of an unsuccessful outcome, they would only be willing to take on CHP clients they assess as having a reasonable chance of securing NHFIC finance.

In implementing such a model, consideration would have to be given to how this model provides payment for services in the instance of a finance application being withdrawn or where a finance application fails to proceed due to factors outside a CHP’s control. In light of the practical implications of the Review’s recommendation that NHFIC be given an explicit mandate to ‘crowd in’ other financiers, consideration would also have to be given to whether payment for services could be claimed where NHFIC steps back from supporting an application because another financier demonstrates a willingness to fund a project.

Recommendation 14

The Review recommends offering Capacity Building Program grants on a ‘no win, no fee’ basis, whereby grants are paid to providers of corporate advisory services only when the CHP they are advising is successful in its application for NHFIC finance.

First Home Loan Deposit Scheme

The popularity of the FHLDS amongst first home buyers is clear. In order to most effectively deliver earlier and additional access to first home ownership, the Review makes a number of recommendations for the Government's consideration.

Collecting better data to evaluate the success of the Scheme

The FHLDS is supporting 10,000 first home purchases a year. The New Home Guarantee is supporting another 10,000 first home purchases in 2020–21 and 2021–22 and the Family Home Guarantee will support up to 10,000 guarantees in total over four years from 2021–22. Even when aggregated, this is a relatively small proportion of the total first home buyer market each year (typically more than 100,000 per year) and an even smaller proportion of the more than 400,000 property transfers every year.⁸⁷

Isolating the impact of this relatively small scheme from the impact of other government initiatives – such as the HomeBuilder program, the First Home Super Saver Scheme, first home owner grants, and various state and territory stamp duty exemptions and discounts — and within the context of broader macro and micro influences on the housing market, is no easy task. The task is not assisted by an absence of useful data.

NHFIC collects some data on the FHLDS, via participating lenders, including:

- the number of guarantees issued;
- the status of applications—reserved, pre-approved, guarantee issued, or settlement confirmed;
- profile information about buyers—age, location, income, intended purchase location;
- information about purchased properties—dwelling type, average value; and
- other aggregated information—average purchase price relevant to price cap, average LVR and LVR range distribution.

The Investment Mandate also requires NHFIC to report to the Minister on a six monthly basis on:

- the status of each guarantee issued under the FHLDS;
- the operating costs of the FHLDS;
- NHFIC's operating expenses for the FHLDS;
- the performance of loans in relation to which a guarantee has been issued, including information on the number of loans in arrears, repayment progress and applicable interest rates;
- the total value of guarantees under the FHLDS; and
- any other information requested by the Minister.⁸⁸

While this information is useful for operational monitoring of the scheme, it reveals little about the impact of the scheme on first home buyers' decision making processes and the timing of their entry to the housing market. A more definitive assessment of the impact of the FHLDS requires information on the subjective experience of buyers who have bought their first home through the FHLDS. In **Box 9** the Review proposes a non-exhaustive list of questions that could be asked of first home buyers to help gauge what impact the scheme has had on their decision making process and their

87 Australian Bureau of Statistics (ABS), *Lending Indicators (5601.24)*, ABS website, 2021, accessed 23 April 2021. Australian Bureau of Statistics (ABS), *Residential Property Price Indexes: Eight Capital Cities (6416.0)*, ABS website, 2020, accessed 26 February 2021. <https://www.abs.gov.au/statistics/economy>

88 Investment Mandate, section 29L.

entry to the housing market. This information could be obtained by surveying those FHLDS buyers through participating panel lenders as part of future agreements between NHFIC and lenders.

Box 9: Potential survey questions to better gauge the impact of the FHLDS

To more specifically test the impact of the FHLDS for first home buyers, respondents could be asked the following questions:

- Without the support of the FHLDS, over what timeframe would you have likely purchased your first home?
- Were you aiming to save a 20 per cent deposit before purchasing your first home? If not, would you likely have used:
 - the support of LMI?
 - other means of support, such as a parental guarantee or a financial gift from family?
- Did the FHLDS allow you to:
 - enter the market sooner than you were otherwise planning?
 - take on a larger loan?
 - enter the market, when you had previously thought it not possible?

Such data would, over time, allow a picture to be built up of the cohorts of first home buyers assisted under the FHLDS and allow conclusions to be made as to whether it is assisting genuinely “additional” buyers and/or “accelerated” buyers, rather than “capable” buyers who do not generally need the assistance (see **Box 2** for definitions). It would also be valuable to have information on first home buyers who did not access the FHLDS. This might involve surveying first home buyers who indicated initial interest in the Scheme but ultimately chose not to use it or those who applied but were unsuccessful.

Recommendation 15

The Review recommends that additional data be collected to evaluate the effectiveness of the FHLDS, particularly on the behavioural changes induced by the scheme and the types of first home buyers that it supports. Findings should be incorporated into the six-monthly reporting required by section 29L of the Investment Mandate.

Maintaining the viability of the LMI sector

Given the capacity of the FHLDS to directly assist only a relatively small number of first home buyers each year, it must remain an objective that viable and effective alternatives to the FHLDS remain available to first home buyers. Key amongst these alternatives is lenders mortgage insurance (LMI). Public interventions into the housing market, such as the FHLDS, should not jeopardise privately-provided options to support affordable pathways to home ownership.

While the Government has been at pains to stress the importance of maintaining a commercially viable LMI sector to support home ownership, the Review notes that the level of unmet demand for the FHLDS inevitably creates pressure on the Government to expand the size of the scheme. An informed understanding of the capacity of the LMI sector to accommodate the Government’s intervention into the market should continue to be a key input into any consideration of changes to

the FHLDS, including consideration of any future expansion of the scheme or redesign of its eligibility criteria.

Recommendation 16

The Review recommends that if the Government were to consider changes to the number of guarantees offered under the FHLDS or substantial changes to the eligibility criteria, it should continue to carefully assess potential impacts on the viability of the private LMI sector.

Future review of the FHLDS

Section 57A of the NHFIC Act currently requires the Minister to cause a review of NHFIC's activities assisting additional first home buyers to enter the housing market to be conducted annually.

In the absence of the sorts of data described above, and sought by **Recommendation 15**, further reviews of the FHLDS every 12 months may not be well positioned to provide meaningful insights into the effectiveness of the FHLDS to assist earlier and additional access to the first home buyer market. Further, overly frequent reviews of the FHLDS may have the effect of undermining confidence in the stability of the policy regime, which may have some adverse impacts on activity in the first home buyer market and create additional uncertainty for the LMI sector. The Government may wish to consider whether future reviews of the assistance to first home buyers, required under section 57A of the NHFIC Act, should occur less frequently than annually, until a meaningful database of survey responses is available through NHFIC.

Options for expansion

The demand for the FHLDS and the number of first home buyers in the market far exceed the number of available guarantees under the FHLDS. The Review recognises that this will create ongoing pressure on the Government to expand the size of the scheme.

The Review notes that, in response to the COVID-19 pandemic, the Government introduced the New Home Guarantee to support the purchase or construction of new dwellings. This has proved a useful complement to other fiscal and monetary policy responses to the pandemic. In the 2021-22 Budget, an additional 10,000 places in the New Home Guarantee were announced, together with the Family Home Guarantee which targets support to single parents with dependants.

The Review supports targeting any additional guarantees to those that most need the assistance. Better targeting may also reduce potential demand for the scheme and, consequently, the number of applicants that 'miss out' each year due to the limited supply of guarantees. Targeting any additional guarantees to support the construction of new dwellings may mitigate some of the attendant impacts of such schemes on house prices.

In **Box 10** the Review identifies possible ways in which the provision of any additional guarantees to first home buyers could be targeted.

Box 10: Options for targeting additional guarantees to first home buyers

Limiting to key workers in the regions

An alternative to income as a way of targeting to those most in need of assistance would be for any additional places in the scheme over the current cap of 10,000 per year to be reserved for particular cohorts of first home buyers, such as workers in essential service sectors in regional areas. Key employment sectors to be targeted might include nursing and allied health professions, teaching and emergency services.

Limiting to those transitioning from social housing

A direct way for the scheme to provide a pathway to home ownership for those most in need would be for any additional guarantee places to be reserved for prospective first-time buyers who are seeking to transition from social or affordable (rental) housing. While the potential applicant pool may be quite limited – given applicants need to have the financial capacity to meet commercial lenders' serviceability assessments – targeting the scheme in this way would provide a significantly stronger connection between the benefit to be provided by the scheme and the cohort most in need of assistance to enter the housing market.

Limiting to newly built dwellings or the construction of new dwellings

As the Government has done with the New Home Guarantee, making any additional guarantee places only available to purchase or construct new dwellings may help to provide support for demand or activity during cyclical downturns and also mitigate potential impacts of such schemes on house prices.

Recommendation 17

The Review recommends that, were the Government minded to provide additional guarantees to support first home buyers, there would be merit in considering whether these could be more precisely targeted to those that most need the assistance. Consideration should also be had to expanding the scheme only in periods when extraordinary countercyclical support for activity may be required or in a way that supports additional housing supply.

Research function

Changes to NHFIC research

NHFIC undertakes its research amidst a relatively crowded field of Commonwealth agencies, Commonwealth-funded institutions, NGOs, academics and private providers all researching and reporting on aspects of housing in Australia. This, combined with the very broad research mandate it has been given, has made it difficult for NHFIC to identify a niche and target its research towards an area of genuine need.

The Review considers that refinements to NHFIC's research mandate are warranted. While NHFIC's national analysis of housing supply and demand fills a definite gap and should continue, the focus of its remaining research efforts should be narrowed and deepened to better align with and support its core purpose of increasing private investment in social and affordable housing.

There are two closely related areas where the Review believes NHFIC's research activities can better support that purpose: (i) research that is aimed at stimulating private finance in social and affordable housing; and, (ii) improving the quality and availability of data on the social and affordable housing sector. Refocussing the research mandate in this way is consistent with the Review's recommendation that NHFIC be given an explicit mandate to 'crowd in' private financiers.

Research to unlock private finance in social and affordable housing

The Review recommends that NHFIC's research function be amended to focus on research aimed at helping to stimulate greater private sector financing of social and affordable housing. This would bring the research mandate more in line with the agency's core function, avoid duplication with existing research coverage and assist with the achievement of the broader 'crowding in' role recommended by the Review.

As discussed in the introductory chapter, meeting the social and affordable housing challenge in Australia requires collaboration across all levels of government and the private sector to draw in capital at scale. While the financing requirement to meet the challenge is daunting, there is no shortage of investable capital both domestically and globally that is looking for safe and stable investment opportunities.

What is ultimately needed to get capital to flow to the sector in sufficient volume is: (i) some form(s) of subsidy from the public sector (state and federal) to supplement the below market rents paid by tenants; (ii) an investor base that is attuned to the benefits and risks of investing in the sector; and (iii) the development of investment models that can leverage those subsidy payments and the sector's stable cash flows to meet investors' required rates of risk and return. It is this third category where NHFIC can provide a catalytic leadership role.

The AHBA provides one demonstrated vehicle for attracting institutional investors into the sector (albeit with the support of a Commonwealth guarantee). However, as previously discussed, it cannot feasibly meet the financing required to close the social and affordable housing gap alone. Under this amended research mandate, NHFIC would direct research towards the development and socialisation of financing models that could be replicable by a range of private financiers, including models where private financiers partner with NHFIC or other public sector investors. NHFIC can be a deal catalyser but needn't be in every deal.

In consultations, the Review learnt of a range of financing structures being developed to deliver social and affordable housing at scale – some of which are already showing a track record while others remained at the proof-of-concept stage. Were NHFIC to take on direct responsibility for developing and promulgating such models this could help crowd in more finance to the sector, and better leverage NHFIC's direct lending activities under the AHBA.

Under this refocused research mandate, NHFIC could also play a role in helping to overcome some of the biases that discourage institutional investment in social and affordable housing. During the Review, stakeholders noted resistance from potential financiers, such as banks and superannuation funds, to invest in social and affordable housing. Many potential lenders seemed concerned by the below market rental streams in the sector, without giving much consideration to the remarkable stability and dependability of those cash flows, underpinned as they are by the provision of Commonwealth welfare payments to tenants. NHFIC's research should be targeted towards helping to break down those biases in investor perceptions of the sector.

Recommendation 18

The Review recommends that NHFIC's research function be narrowed to focus on research aimed at helping to unlock and stimulate private finance in social and affordable housing, consistent with NHFIC's core purpose and competencies. NHFIC should retain responsibility for research into housing demand and supply in Australia, including current and potential future gaps between housing supply and demand.

Enhancing social and affordable housing sector data

The Review heard from a broad range of stakeholders on data gaps and data quality the sector, and the extent to which this is hampering the sector's development. The Review considers that NHFIC should be given more explicit direction to support efforts to improve the quality and availability of data in the social and affordable housing sector, as well as data on national housing supply and demand – see **Box 11**.

The Review notes that a vibrant private financing ecosystem that is able to deliver housing at the scale needed is unlikely to emerge without improvements in this area. Having successfully established itself as a major participant in the sector, NHFIC is now uniquely placed to play a key role in helping to close those data gaps. Explicitly directing NHFIC to contribute to efforts to improve the quality and availability of data on the social and affordable housing sector will give it more license to build momentum in this area.

NHFIC has made in-roads into improving the availability of data on housing supply and demand through its State of the Nation report, which was widely credited with providing analysis that had been absent since the abolition of the NHSC. It is notable, however, that the data presented in the report has not been made available in a readily downloadable form. The Review suggests that NHFIC work towards making the underlying data from this report available in a downloadable, accessible format, in a similar fashion to previous NHSC state of supply reports. The Review believes that NHFIC's data sets should be made accessible and widely available. This could be extended to developing data nomenclature to improve data sharing, including wider acceptance of what comprises widely used terms such as 'social housing' and 'affordable housing'.

Box 11: Gaps in housing data

Improvements to the quality of data in the social and affordable housing sector should include available data demonstrating:

- an inventory of social and affordable housing stock, including sales, transfers, acquisitions, additions and withdrawals, across geographical location;
- performance of the CHP sector, including expenditure, assets, financial and governance arrangements, as well as more specific data like refurbishment and maintenance costs;
- demand for investment in social and affordable housing;
- constraints on the supply of new housing, including regulatory and tax barriers;
- impediments, gaps and blockages that drive housing affordability and mechanisms for combatting these; and
- supply pathways to produce housing that caters to the needs of a changing population.

The Review is not the first to identify issues of poor quality data in the social and affordable housing sector. The 2019 NRSCH Data Needs Recommendations Paper, and public submissions made to the paper, observed that the quality of current data is weakened by:

- a lack of consistent terminology, concepts, indicators, definitions and counting rules under community housing reporting requirements (such as, for example, vacancy turnaround, untenable vacancies and arrears calculations);
- an absence of aggregated data about CHPs, including type, age, ownership, governance, location of dwellings, average tenure and household movements;
- insufficient data sharing across coordinating and funding agencies;
- inadequate connectedness between data collection mechanisms (i.e. tenancy management systems) and data standards;
- a lack of CHP sector 'environmental scans' focusing on business operations, including governance performance, risk management planning, implementation of appropriate management systems, and management of financial risk exposures; and
- insufficient data showing the effects of retention of affordable housing assets over the long-term (i.e. as opposed to assets exiting the social and affordable housing market).

The NRSCH indicated that addressing gaps and shortcomings in CHP datasets such as those listed above would be important to increase transparency, accountability and encourage private and public investment in the provision of social and affordable housing. Equally, submissions to the NRSCH asserted a need to streamline existing data collection processes and progress modifications to data collection only where these will result in material benefit and not thrust additional compliance on registered CHPs.

The Review also heard from stakeholders that NHFIC could be directed to publish data it collects relating to the delivery of its core functions – namely, the AHBA, NHIF and FHLDS. NHFIC could contribute to the development of a nationally consistent reporting framework for the CHP sector to support the ability of potential investors to assess and manage risks. Owing to its role as a significant lender to the sector, NHFIC has access to highly valuable data on the financial performance of CHPs and social and affordable housing projects. While this data would have to be appropriately aggregated and de-identified to protect its commercially sensitive nature, publishing it would help contribute to the evolving financing ecosystem.

NHFIC might also take on a leadership role to bring together the various housing data gatekeepers in Australia. A particular concern, for instance, is that housing supply data is largely held by local governments who may see little incentive in contributing to broader data projects and may lack resourcing to do so. Given housing levers exist across all levels of government, there is a need for strong Commonwealth leadership to bring entities to the table and provide a framework for the collection of good-quality and consistent data sets nationally. The Review considers that NHFIC is well placed to provide that leadership.

Recommendation 19

The Review recommends that NHFIC be directed to support and, where appropriate, lead efforts to enhance the quality and availability of data on the social and affordable housing sector.

The Review acknowledges that there are a number of housing data projects underway across government. NHFIC must ensure its participation adds value and avoids duplicating functions provided by other Commonwealth agencies. Of note, the Data Working Group, established under the National Housing and Homelessness Agreement (NHHA), is required to identify data and data improvements required (including potential new data) to support assessment of progress towards achieving outcomes under the NHHA or, more broadly, improved housing, homelessness and housing affordability research and policy. The Working Group is also responsible for devising a Housing and Homelessness Data Improvement Plan (DIP) to support the creation of data resources, improvements to existing data sets and linkages between Commonwealth and state and territory datasets and map out practical timelines and costs.

Under the NHHA, the Commonwealth committed \$4.8 million over four years in the 2018-19 Budget for data improvement activities. This funding was provided to the ABS to undertake data collection activities relating to supporting estimates of the stock of affordable housing and to improve existing survey-based planning and zoning data and dwelling construction cost collections. States and territories committed to matching Commonwealth funding, bringing the total to \$9.6 million under the DIP for activities related to eight NHHA indicators, including supporting better data on homelessness and rental stress.

The Commonwealth also provided funding to establish the AIHW Housing Data Dashboard to bring together all major housing and homelessness data in a user-friendly dashboard, and AURIN (through the National Collaborative Research Infrastructure Strategy), which includes an online Workbench with access to multi-disciplinary datasets and tools for spatial and statistical modelling, planning and visualisation.

Strengthening NHFIC's financial and governance arrangements

Two reviews of NHFIC's financial and governance arrangements have been undertaken to date – an internally commissioned review in mid-2019 and a more recent performance audit by the Australian National Audit Office. To complement the findings and recommendations of these previous processes, the Review has made recommendations where it believes further refinements to NHFIC's financial and governance arrangements can be made.

Board skills matrix

NHFIC's annual report for 2019-20 noted that the NHFIC Board regularly reviews its composition to ensure it comprises the optimum number of members and the appropriate mix of skills, but did not

specify the frequency or outcomes of these reviews. While the Review acknowledges that the Minister is ultimately responsible for selecting and appointing members to the NHFIC Board, it is good practice for formal mechanisms to be in place for the ongoing monitoring and review of Board skills. Ongoing review of the structure and operation of the Board is consistent with Principle 2 of the ASX Corporate Governance Principles and Recommendations, in particular Recommendation 2.2 which states that:

A listed entity should have and disclose a board skills matrix setting out the mix of skills that the board currently has or is looking to achieve in its membership.

The ASX note that a skills matrix provides useful information to investors, increasing the accountability of the Board, and must be undertaken periodically to address existing and emerging governance issues.⁸⁹

The development and maintenance of a board skills matrix would assist NHFIC in identifying expertise gaps, either in terms of skills sets that need to be recruited or addressed in other ways. There is merit in the Board sharing the skills matrix on a semi-regular or as-needed basis with the Minister as the appointer of Board members under section 18 of the Act.

This will become even more important if the Government agrees to the Review's recommendation (**Recommendation 1**) to make 'crowding in' an explicit role of NHFIC, which will require a fundamental change to the way that NHFIC operates. Indeed, if the Government agrees to that recommendation, such a profound change gives rise to the need to reconsider NHFIC's strategy and in due course the appropriate skills mix for the Board, Executive and NHFIC staff.

Recommendation 20

The Review recommends that the NHFIC Board be directed to develop and maintain a board skills matrix, including current and potential gaps, and to provide this to the Minister periodically. At a minimum, this should be provided to the Minister when there is a major change in strategic direction and reasonably in advance of the expiry of a Board member's term.

Recommendation 21

If Recommendation 1 is accepted by the Government, the Review recommends that:

- the Government consider whether the Board has the necessary skills and experience required to oversee this change; and
- the NHFIC Board and Chief Executive Officer consider whether NHFIC staff have the necessary skills and experience to effect this change.

Board to undertake regular reviews

The Review believes that it is good practice for the Board to undertake regular reviews of its performance and that this reflects standard practice in the private sector. The Australian Institute of Company Directors notes that 'it is now common practice for Boards to run an externally facilitated

89 ASX Corporate Governance Council, *Corporate Governance Principles and Recommendations 4th Edition*, ASX website, 2019, p 36. <https://www.asx.com.au/documents/regulation/cgc-principles-and-recommendations-fourth-edn.pdf>

board evaluation every three to four years and to conduct lighter touch internally managed processes in each of the years in between'.⁹⁰

The ASX also stipulate the need for periodic reviews of the skills mix to address existing and emerging governance issues (Recommendation 2.2). In addition, Recommendation 1.6 states that a listed entity should:

Have and disclose a process for periodically evaluating the performance of the board, its committees and individual directors, and;

Disclose for each reporting period whether a performance evaluation has been undertaken in accordance with that process during or in respect of that period.

The ASX note that given the pivotal role of the board in the governance framework, a proper process for regularly reviewing the performance of the board, its committees and individual directors is crucial. They also note the need to consider periodically using external facilitators to conduct its performance reviews.⁹¹ The Review notes that the ANAO, in its performance audit of NHFIC, found that the NHFIC Board and its committees had not reviewed their performance since their establishment in September 2018.⁹²

The Review considers that in order to gain maximum utility from development and maintenance of a skills matrix, it must be part of a broader process of both periodic internal and external, independent review.

The Review considers that NHFIC should undertake an annual internal Board peer review, and external reviews of its performance every three years. These reviews should cover the performance of the Board and its sub-committees as well as the performance of individual Board members. The Review recommends that these reports also be provided to the Minister for information.

Recommendation 22

The Review recommends that the NHFIC Board be directed to undertake internal reviews (annually) and external reviews (every three years) of its performance, the performance of its individual Board members, and the performance of its Board sub-committees. The Minister should be provided with annual updates on the performance of the Board and a copy of any external reviews.

Documenting and managing conflicts of interest

NHFIC has a Services Agreement in place with Export Finance Australia (EFA) that provides for the delivery of key support services to NHFIC such as finance, information technology, treasury, human resources and accommodation. The Services Agreement is based on a cost recovery charging model. The Services Agreement has enabled NHFIC to effectively establish itself quickly and respond in an agile and cost-effective way.

90 Australian Institute of Company Directors, *Director Tools: Board evaluation and director appraisal – Board performance*, accessed 20 March 2021, p 2. http://aicd.companydirectors.com.au/-/media/cd2/resources/director-resources/director-tools/pdf/05446-2-1-director-tools-bp_board-evaluation-director-appraisal_a4_web.ashx

91 ASX Corporate Governance Council, 2019, p 11.

92 ANAO, 2021, p 41.

The ANAO noted that the Services Agreement was originally negotiated by the Treasury to facilitate the establishment of NHFIC. It came into effect on 1 June 2018 for a period of twelve months and was novated to NHFIC on 26 September 2018. Since that time, the Services Agreement has been extended twice – the first extension was agreed on 5 August 2019 and the second extension was agreed on 17 July 2020. Apart from the extensions, there were no other changes to the terms and conditions of the Services Agreement.⁹³

The Review notes that at the time of the decision to extend the Services Agreement the second time, the Chief Financial Officer (CFO) of NHFIC also, ostensibly, held the position of CFO of EFA.

The Review believes that while internal arrangements were in place to manage this potential conflict of interest, it was not sufficiently clear which agency (EFA or NHFIC) the CFO was primarily representing. This has left NHFIC open to the perception that it was not adequately managing potential conflicts while the extension of the Services Agreement was being negotiated. This risk is relevant in light of the ANAO's (and, previously, KPMG's) finding that NHFIC's monitoring and performance reporting of the Services Agreement with EFA lacked rigour.

The Review believes that it would have been good practice for the Board and senior executives to take formal steps to acknowledge the potential conflict, and document how it would be managed, given that the CFO was in the process of migrating from being an employee of EFA to being an employee of NHFIC.

The ANAO has made other recommendations regarding NHFIC's risk management processes, and NHFIC is taking steps to implement improved arrangements in response to ANAO's recommendations.

Recommendation 23

The Review recommends that the NHFIC Board examine how it documents and manages potential conflicts of interest and its performance monitoring activities.

Statement of Expectations

The Review believes that NHFIC would benefit from further guidance from the Minister on the Government's expectations. This could be effected via the provision of a formal Statement of Expectations to NHFIC.

A Statement of Expectations is a non-binding instrument issued by Ministers that can support greater efficiency and effectiveness in administering existing legislative requirements. It is a way for Ministers to provide clear expectations about government policy priorities relevant to a statutory authority, including guidance on how the Government expects the agency to interpret its statutory mandate and conduct its operations. Statements of Expectations are widely used across State, Territory and Commonwealth levels of government. For example, the Commonwealth Government has issued Statements of Expectations to ten Treasury portfolio agencies, each of which has responded with a Statement of Intent.

A Statement of Expectations is not legally binding, and is designed to support, rather than supplement, legislative obligations. While not mandatory, actions identified in a Statement of Expectations can guide an agency in interpreting its legislative mandate, as well as support good governance practice, greater transparency, the implementation of measures to address pre-existing governance issues, and help an agency identify administrative gaps and mechanisms to address them.

93 ANAO, 2021, p 42.

It is open to the Minister to decide what is included in a Statement of Expectations. Based on previous examples for other Treasury portfolio agencies⁹⁴, such a requirement for NHFIC could address issues such as expectations for NHFIC's:

- Relationship with the Minister
- Relationship with Treasury
- Transparency and accountability
- Reporting on important operational issues
- Organisational governance and financial management
- Engagement with stakeholders
- Collaboration with other government agencies

Should the Government agree to **Recommendations 21-23** above, the Review considers that these could be effected via inclusion in a Statement of Expectations.

Recommendation 24

The Review recommends that the Government provide NHFIC with a Statement of Expectations to further support NHFIC's responsibilities as set out in the Act and the Investment Mandate. NHFIC should be expected to respond with a Statement of Intent.

Ensuring that earnings from the NHIF are used for the purposes of the NHIF

Consistent with the expectation that NHFIC's operations become self-funded, the NHFIC Investment Mandate prescribes that NHFIC is able to use funds from the NHIF to cover its operating costs associated with the NHIF (see **Box 12**).

Box 12: Extract from NHFIC Investment Mandate — establishment of NHIF Permanent Fund

13 Establishment of Permanent Fund

(1) The NHFIC must establish a fund (the Permanent Fund) for the purposes of Part 4 (National Housing Infrastructure Facility), that consists at any time of:

- (a) any current infrastructure loans or investments; and
- (b) funds available for the purposes of:
 - (i) making infrastructure loans and investments; and
 - (ii) meeting the operating costs of the NHIF.

(2) The Board must allocate amounts appropriated by the Parliament for the purposes of the NHIF to the Permanent Fund.

(3) Any returns on infrastructure loans and investments must be returned to the Permanent

⁹⁴ Treasury, *Statements of Expectations*, Treasury website, n.d., accessed 23 March 2021.

<https://treasury.gov.au/the-department/accountability-reporting/statements-of-expectations>

The Review understands that NHFIC has used interest earned on deposits held in the Permanent Fund (that is, interest derived from term deposits, not from loan receipts) for the purpose of meeting operational costs other than those associated with its operation of the NHIF. While there may be no specific legal impediment, the Review believes that this use is not consistent with the intent of the legislation. Moreover, it could create perverse incentives for NHFIC’s management of the NHIF. There would be merit in clarifying that interest earned on deposits held in the NHIF should only be used for the purposes of the NHIF, unless NHFIC has received prior agreement from the Minister to use these funds for another purpose.

Recommendation 25

The Review recommends that interest earnings on the NHIF Permanent Fund should only be used for the purposes set out in section 13 (1) of the Investment Mandate, unless the Minister’s prior agreement has been sought.

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Appendix 1: The shortfall of social and affordable housing

The Review estimates that the total quantum of investment required over the next two decades to meet the shortfall in social and affordable housing stock is approximately \$290 billion⁹⁵. The scale of investment required inevitably means that all levels of government, the private sector and not-for-profit organisations will all need to be part of the solution.

This estimate is based on advice from the Australian Government Actuary (AGA), and draws heavily on previous analysis undertaken by the University of New South Wales (UNSW)⁹⁶ and the Australian Housing and Urban Research Institute (AHURI)⁹⁷.

Estimating social and affordable housing need

Estimates of the required additions to the stock of social and affordable housing were based on assessments of households currently living in 'rental stress' and implied need from the reported number of individuals classed as 'homeless'. More specifically, the current 'unmet need' for social housing was estimated by UNSW using 2016 Census data as the number of households in the bottom income quintile who were paying over 30 per cent of their income in rental costs plus the number of people classified as homeless. Similarly, the current unmet need for affordable housing was estimated based on the number of households in the second income quintile who were in private rental stress.

The Review has adopted these estimates of the shortfall in 2016 as the starting point for determining the current and projected shortfall of social and affordable housing dwellings. This shortfall does not include existing social rental households whose needs are currently being met.

Projected shortfall

In order to project the current estimates of unmet need to 2036, the UNSW paper uses regionally differentiated population growth estimates produced by the Australian Bureau of Statistics. These population growth estimates assume that the current profile of household types and income profiles remains constant.

For its purposes the Review has taken the approach of growing forward the estimated current shortfall by assumed general population growth over the next twenty years (to 2040). This approach assumes that the current scale of unmet need, in the absence of further intervention, will remain a constant share of the total Australian population.

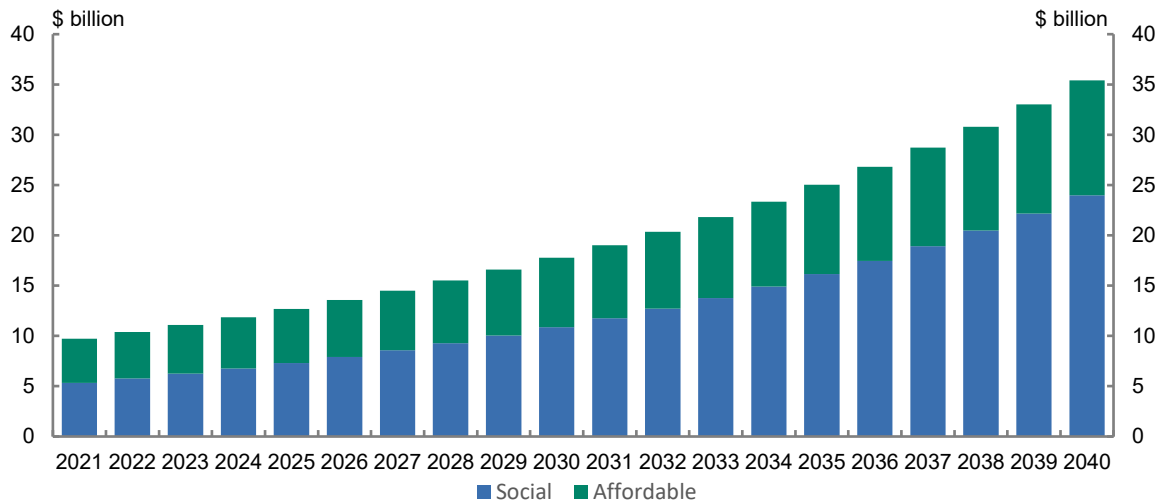
The estimated number of additional social housing dwellings required over the next 20 years is 614,000 whilst the estimated number of affordable housing dwellings required is 277,000.

95 This reflects the capital cost of the dwellings, and excludes any maintenance or operational costs.

96 https://communityhousing.org.au/wp-content/uploads/2019/03/Modelling_costs_of_housing_provision_FINAL.pdf

97 <https://www.ahuri.edu.au/research/final-reports/306>

Estimating the capital investment required to meet the social and affordable housing shortfall



The Review has adopted estimates of the ‘per unit’ cost of developing the required additions to the total stock from the work undertaken by UNSW and AHURI. Informed by this report, we have adopted an average cost of building a social dwelling (including associated land) of \$267,000 and an average cost of building an affordable housing dwelling of \$360,000. This assumes marginally smaller dwellings sizes for social housing in comparison to market averages.

The net present value of the estimated capital cost of the shortfall of dwellings if built over the next 20 years, allowing for inflation and superimposed inflation, is \$183 billion for social housing and \$110 billion for affordable housing. Therefore, the total capital investment required to construct the required additions to the social and affordable housing stock over the next 20 years is estimated to be around \$290 billion. Note that this estimate excludes the ongoing cost of managing, operating and maintaining the current and projected stock of social and affordable housing – it is simply an estimate of the cost of constructing the required additions to the stock and acquiring the associated land, if the current and projected shortfall were to be gradually closed over the next 20 years, with the shortfall being met in 2040.

	Estimated number of additional dwellings required over 20 years	Investment required to build those dwellings over the next 20 years
Social housing	614,000	\$183 billion
Affordable housing	277,000	\$110 billion
TOTAL	891,000	\$293 billion

Meeting the shortfall of social and affordable housing

Although the scale of the total capital investment required to meet the shortfall of social and affordable dwellings is large, the Review notes that this investment can be met via contributions from both the public, private and the not-for-profit sector. This includes the use of mechanisms such as direct government subsidies, private investment, leveraging current social and affordable housing stock and planning policies.

Appendix 2: NHFIC’s bond issuances and loans to CHPs

The table below outlines the details of NHFIC’s bond issuances.

Issue Date	Principal	Investors	Features
28 Mar 2019	\$315m	26 Australian and offshore institutional investors	<p>Maturity: 28 March 2029</p> <p>Tenor: 10 years</p> <p>Issue price: 100% of principal</p> <p>Yield at issue: 2.38%</p> <p>Coupon payable: semi annually (31 Mar and 30 Sep)</p> <p>Bond classification: social bond</p> <p>Rating: AAA</p>
27 Nov 2019	\$315m	11 new institutional investors, total of 35 investors	<p>Maturity: 27 March 2030</p> <p>Tenor: 10.5 years</p> <p>Issue price: 100% of principal</p> <p>Yield at issue: 1.52%</p> <p>Coupon payable: semi annually (27 May and 27 Nov)</p> <p>Bond classification: social bond</p> <p>Rating: AAA</p>
29 Jun 2020	\$562m	8 new institutional investors; total of 35 investors	<p>Maturity: 29 June 2032</p> <p>Tenor: 12 years</p> <p>Issue price: 100% of principal</p> <p>Yield at issue: 1.41%</p> <p>Coupon payable: semi-annually (29 Jun and 29 Dec)</p> <p>Bond classification: social bond</p> <p>Rating: AAA</p>

Issue Date	Principal	Investors	Features
2 June 2021	\$343m	30 institutional investors (including 12 international investors)	<p>Maturity: 30 June 2036</p> <p>Tenor: 15 years</p> <p>Issue price: 100% of principal</p> <p>Yield at issue: 2.335%</p> <p>Coupon payable: semi-annually (30 Jun and 30 Dec)</p> <p>Bond classification: sustainability bond</p> <p>Rating: AAA</p>
15 June 2021	\$362m	23 institutional investors (including 6 international)	<p>Maturity: 1 July 2031</p> <p>Tenor: 10 years</p> <p>Issue price: 100% of principal</p> <p>Yield at issue: 1.74%</p> <p>Coupon payable: semi-annually (1 Jul and 1 Jan)</p> <p>Bond classification: social bond</p> <p>Rating: AAA</p>
15 June 2021 - (Floating Rate Note)	\$100m	14 institutional investors (including 6 international)	<p>Maturity: 1 July 2031</p> <p>Tenor: 10 years</p> <p>Issue price: 100% of principal</p> <p>Yield at issue: 3 month BBSW+18bps</p> <p>Coupon payable: 3 month BBSW + 18 bps</p> <p>Bond classification: social bond</p> <p>Rating: AAA</p>

Loans supported by NHFIC bond issuances

28 March 2019 issuance

NHFIC's first bond issuance raised funds for 10-year, interest only loans at a fixed rate of less than 3 per cent per annum to eight CHPs:

- BlueCHP (\$70 million, NSW),
- Community Housing Limited (\$35 million, NSW and WA),
- Compass Housing (\$45 million, NSW),
- Evolve Housing (\$70 million, NSW),
- Hume Housing (\$35 million, NSW),
- St George Community Housing (\$15 million, NSW),
- UnitySA Housing Limited (\$7 million, SA), and
- Unity Housing Company Limited (\$38 million, SA).

The loans were used to refinance \$251.5 million in existing debt and support the construction of up to 300 new affordable rental dwellings, enhanced support services, and ongoing maintenance.

20 November 2019 issuance

NHFIC's second bond issuance raised funds for 10.5-year, interest only loans at a fixed rate of 2.07 per cent per annum to seven CHPs:

- Bridge Housing (\$51.14 million, NSW),
- HousingFirst and the Port Phillip Trust (total \$72 million, VIC),
- Haven Home Safe (\$65 million, VIC),
- Housing Choices Australia (\$55 million, VIC),
- Churches of Christ (\$4.86 million, QLD),
- Foundation Housing (\$35 million, WA), and
- Anglicare SA (\$32 million, SA).

The loans supported the financing of over 2,000 properties across Victoria, New South Wales, Queensland, Western Australia and South Australia, including the supply of over 360 new social and affordable dwellings.

24 June 2020 issuance

NHFIC's third bond issuance to date raised funds for 12-year, interest only loans at a fixed rate of 2.06 per cent per annum to 10 CHPs:

- Housing Choices Tasmania (\$17 million, TAS)
- Argyle Community Housing (\$12 million, NSW),
- BaptistCare (\$144 million, NSW and ACT)
- Bridge Housing (\$24.86 million, NSW),
- Common Equity Housing Ltd (\$50 million, VIC),
- Junction (\$26.14 million, SA),
- Mission Australia Housing (\$65 million, NSW),

- Pacific Link Housing (\$4 million, NSW),
- SGCH Sustainability (\$210 million, NSW), and
- Women’s Housing Limited (\$9 million, VIC).

The loans supported the financing of 2,736 properties including 775 new dwellings. NHFIC anticipated the bond would save the participating CHPs over \$80 million in interest payments over the next 12 years.

2 June 2021 issuance

NHFIC’s first sustainability bond issuance and longest tenor to date (15-year) provided interest only loans at a fixed rate of under 3 per cent per annum to a Community Housing Limited (CHL) driven Building Communities consortium.

The funds raised from this bond will directly support the delivery of over 1,100 new homes across Melbourne. This includes the delivery of 600 social homes, 450 affordable and private rental homes, and 50 supported disability accommodation across sites in Brighton, Flemington and Prahran. Significant environmental and energy efficiency initiatives will be incorporated into the developments.

15 June 2021 issuances

NHFIC simultaneously issued two new 10-year social bonds on 15 June 2021 – a fixed-rate bond of \$362 million and NHFIC’s first floating rate note of \$100 million.

Funds from NHFIC’s \$362 million fixed rate bond will finance 10-year fixed rate interest only loans to eight community housing providers (CHPs):

- SGCH Group (\$150 million, NSW),
- Mission Australia (\$67 million, NSW),
- Unison (\$53 million, VIC)
- Common Equity VIC (\$16 million, VIC)
- Foundation (\$45 million, WA)
- Pacific Link (\$7 million, NSW),
- HCASA (\$16 million, SA); and
- HCT (\$8 million, TAS)

NHFIC will also finance a 10-year variable interest loan to SGCH Group with the proceeds of the \$100 million floating rate note to meet their financing needs.

These two social bonds will support more than 1,000 new and over 2,800 existing homes in NSW, Victoria, Tasmania, Western Australia and South Australia.

Appendix 3: Consultation

The Review published an Issues Paper on 7 December 2020, calling for submissions from interested stakeholders on any or all aspects of the terms of reference. The Review received 28 public (and 3 confidential) submissions in response. Public submissions are available on the Treasury website at: <https://treasury.gov.au/review/national-housing-finance-and-investment-corporation-act-review>

To supplement information gathered through formal submissions and its own desktop research, the Review met with a wide range of stakeholders. In total, 38 meetings (including 2 roundtable meetings) were held with representatives across the spectrum of: community and affordable housing providers; commercial lenders; institutional investors; capital markets advisory services; peak bodies; housing developers; consultancy services; economists; research organisations and academics. The Review also met with NHFIC Board Members and NHFIC staff.

Cognisant of the need to ensure it was receiving a diversity of views across the country, the Review met with representatives across all major housing markets in Australia. For an international perspective, the Review also met with The Housing Finance Corporation in the United Kingdom.

Organisations and individuals that met with the Review or made written submissions

Organisation or individual

Ability First Australia
Adrian Harrington (NHFIC Board member)
Australian Alliance to End Homelessness
Australian Housing and Urban Research Institute
Australian National Audit Office
Australian Office of Financial Management
ANZ
Brendan Crotty (Chair, NHFIC Board)
Bridge Housing
Australian Alliance to End Homelessness
CBA
Cbus
Community Housing Industry Association
Community Housing Limited
Corrs Chambers Westgarth
David Cant (NHFIC Board member)
EY
Genworth
Group of CHP Chairs
Havelock Housing
Housing All Australians
Jim Craig
Professor Ian Harper

Organisation or individual

Keystart

Dr Julie Lawson and Dr Mike Berry (RMIT)

Lighthouse Infrastructure Management

Master Builders Australia

Michael Traill AM (Chair, Social Impact Investing Taskforce)

NAB

Name withheld

National Affordable Housing Consortium

National Affordable Housing Providers

National Housing Finance and Investment Corporation

National Shelter

Nightingale Housing

NSW Government

P&N Bank

Piers Williamson (CEO, The Housing Finance Corporation)

PowerHousing

Property Council of Australia

PwC

QBE

Queensland Department of Communities, Housing and Digital Economy

Robert Jeremenko (NHFIC Board observer)

Saul Eslake

Social Ventures Australia

St George Community Housing

Stephen Knight

Teresa Dyson (NHFIC Board member)

Tetris Capital

UNSW

Urban Development Institute of Australia

Western Australia Department of Communities

Westpac